

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 Tuesday, June 11, 1946, at 11:25 a.m.

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

Mr. Carpenter, Secretary

Messrs. Whittimore, Sproul, Williams, Gidney, Leach, McLarin, Young, Davis, Peyton, Leedy, Gilbert, and Clerk, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco, respectively.

Mr. Treiber, Secretary of the Presidents' Conference

Mr. Sproul stated that the Presidents' Conference met in Washington on Friday and Saturday, June 7 and 8, 1946, and yesterday presented to the Board a memorandum of matters which the Conference wished to discuss with the Board. Following a reading of the statement contained in the memorandum with respect to each topic, the discussion at this meeting was substantially as follows:

1. Reimbursable Expenses. The Conference of Presidents was informed of the work of the sub-committee 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 ex-

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penses 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 of the Treasury.

Mr. Sproul stated that while there was every reason to believe that the negotiations looking toward a simplification of the present procedure for the submission of vouchers covering fiscal agency expenses would be successful and would result in a workable solution of the problem, it was felt that if that should not prove to be the case there should be available a statement as to what the procedure should be and that it would be desirable if it were understood that no Federal Reserve Bank would take action in the event a request were made for inspection of its books without taking the matter up with the Presidents' Conference Committee and the Board of Governors.

Mr. Szymczak stated that the Board had considered this matter and would suggest that the last sentence of the statement set forth above 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". The Presidents agreed to this change.

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Chairman Eccles stated that when this question first arose in 1944 the Board took the position that it stood in somewhat the same position in relation to the Federal Reserve Banks as the General Accounting Office to the Departments and agencies of the Government the accounts of which were subject to the jurisdiction of that office, that the Board should be relied on to see that the fiscal agency operations of the Federal Reserve Banks were efficiently and economically conducted and that the costs of such operations were reasonable and accurately accounted for, and that, therefore, any inspections or examinations by the General Accounting Office or other agency would be a duplication of effort and would not be justified. He said he had discussed the matter at the time with Under Secretary of the Treasury Bell who agreed with that position.

Mr. McLarin inquired whether the position agreed to by the Presidents was consistent with the present arrangement with the auditors from the Reconstruction Finance Corporation. This point was discussed and there was unanimous agreement with the comment that the Reconstruction Finance Corporation auditors merely conducted an audit of custodies held by the Federal Reserve Banks for the Corporation and did not undertake to make any examinations or inspections of the records of the Federal Reserve Banks or to determine how expenses were accounted for.

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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 said that the Board had considered this matter at a separate meeting this morning as well as on previous occasions and that it had felt for some time that the present arrangement under which each of the Federal Reserve Banks had a separate classification plan for employees was entirely unsatisfactory, that the Board could no longer discharge adequately its statutory responsibilities with respect to salaries of employees with the widely varying classification plans now in effect and that, therefore, it was under the necessity of adopting a plan which would place the consideration of salaries more nearly on a System basis.

Chairman Eccles also said that it was the view of the Board that the Federal Reserve Banks should expedite their job evaluation studies, and that within a reasonable time -- not more than six months -- there should be prepared a classification plan which would

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be uniform for all of the Federal Reserve Banks and which would provide for minimum and maximum salaries for each classification. The classifications, he said, should be broad enough to cover all positions in the Federal Reserve Banks. For example, he said, the Federal Reserve Bank of New York had functions not performed by the other Federal Reserve Banks. The classification plan would include all these jobs, but it would be understood that all the Banks would not have all the jobs covered by the plan. He added that it was the thought of the Board that this plan would give the Federal Reserve Banks more latitude within the minimum and maximum salaries that would be provided than they had at the present time, and would enable the Board more intelligently to discharge the responsibility placed on it by Congress as it would be in a position to say that what it had done was in accordance with approved practice and procedure. He made the further comment that whenever a change in the plan or in the salary levels provided by the plan was approved by the Board, the approval would apply to all Federal Reserve Banks, and that there was less of a regional differentiation in salary scales than in the past and the System should recognize that trend. Salaries of the Federal Reserve Banks, he said, should not be determined by salary policies of private banks in the Federal Reserve Bank or Branch cities and there was as much responsibility on the Board to see that employees of the Federal Reserve Banks were adequately paid, particularly in the lower salary groups, as there was to see that salaries were not too high.

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He then suggested that when the work of job evaluation at the Federal Reserve Banks had been completed the appropriate committee of the Presidents' Conference and Mr. Leonard, Director of the Division of Personnel Administration of the Board, get together and work out a uniform classification plan which would be put into effect within a period of six months. He said that every effort should be made to complete the classification plan as promptly as possible for the reason that action by the Board authorizing the Federal Reserve Banks to exceed the maximum salaries provided under the existing classification plans, which were out of date, was not a satisfactory way in which to meet the problem and that while it was justified as an emergency measure it should not be continued any longer than was absolutely necessary.

Mr. Sproul thought the Presidents were in accord with the Board's position. He also said that the work of job evaluation at the Federal Reserve Banks was in different stages of completion, but it was contemplated that when the work was finished the results would be brought together by the Presidents' Conference Committee, and, working with Mr. Leonard, a classification plan could be drafted which would enable the Board to meet its responsibilities. He stated that it was impossible to make a commitment as to the timing of the program but that it was recognized that the existing emergency situation in which the Board was called upon to grant additional authority to the Reserve Banks to increase salaries was unsatisfactory, and that each

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Federal Reserve Bank would push ahead on the matter as rapidly as possible.

Mr. McLarin suggested that it would be desirable if the new plan could be put into effect by the first of the year, and Mr. Davis, while agreeing with the necessity for prompt action, felt that it would be unwise to sacrifice what would otherwise be a complete and thorough job merely for the purpose of meeting a deadline. He stressed the amount of work that was involved in training job analysts and interviewing officers and employees and said that there would be greater danger in trying to rush the work to completion than would be the case if it were allowed to take a somewhat longer time. Mr. Williams agreed in Mr. Davis' statement and the other Presidents indicated agreement.

Chairman Eccles responded with the comment that the Board did not want to press for completion of the work to a point where the result would not be adequate, but that if a date for completion were not set the program would tend to drift, and that while an additional two months or so was not important the Board did not want to be in the position where it would be faced again with the necessity of approving further increases in salaries at Federal Reserve Banks on an emergency basis.

Mr. Clerk inquired whether it was contemplated that the classification plan proposed by Chairman Eccles would provide for both minimum and maximum salaries and Chairman Eccles responded that it was, that

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the civil service classifications had both a minimum and maximum for each classification, and that while it was admitted that there were objections to a minimum salary these objections could be considered and minimums provided if found to be practicable. He thought that minimum salaries were desirable because it would make impossible in the future situations which had existed in the past where a Federal Reserve Bank was paying extremely low salaries in the lower positions.

Mr. Sproul stated that such a situation served to point up the necessity for a continuing study of job evaluation and classification plans after they have been put into effect in order to keep them up to date and in harmony with changing conditions.

At the conclusion of the discussion, Mr. Sproul stated that the Presidents understood that their job evaluation studies were to be expedited as much as possible consistent with a thorough and satisfactory job, and that the job was not one on which they could take their time.

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, 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



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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.

Chairman Eccles stated that during the interim period referred to in the statement the Board would be willing to grant such authority, upon request of a Federal Reserve Bank, up to 30 per cent above the maximum salaries provided under the existing personnel classification plan of the Bank.

Mr. Whittemore stated that he expected to present such a request in the course of the next two weeks to enable the Federal Reserve Bank of Boston to meet increases in salary scales which had recently been made effective by the commercial concerns and other banks in Boston.

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

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.

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Chairman Eccles stated that the Board was favorable to the Presidents' suggestion in this matter, that no additional work should be placed on member banks at this time which was not fully justified by the results obtained, and that it would be desirable to review the information obtained from weekly reporting member banks to see what changes should be made in the information requested to meet changing conditions.

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.

Chairman Eccles stated that the Board would approve the Presidents' recommendation.

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

- (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.

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(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.

Mr. Sproul said that while the Presidents wished to discuss all of these matters with the Board, it was felt that the two items last referred to involved some urgency as they were adversely affecting member banks and membership in the System in some districts and

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that the Presidents wanted to explore with the Board possible steps that might be taken to hasten adequate legislation. With respect to the holding company bill, he stated that the Presidents would like to get whatever information the Board had with respect to it as an aid to the Committee on Legislation of the Presidents' Conference in making a further study of the bill. He added that, in general, the Presidents were in favor of the bill as a substitute for the draft previously proposed by the Board.

Chairman Eccles stated that the Board had hoped that it would be possible to get a bill which would have the support of the Treasury and the other Federal bank supervisory agencies but that that had not been possible. He reviewed the discussions which had been had with representatives of the Treasury and Justice Departments, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation with respect to the proposed bill and the circumstances which led the Board to propose the bill without such support. He also referred to the interest of the independent bankers associations and holding company groups in the legislation and said that hearings before the Banking and Currency Committees of both Houses would probably be held at the next session of Congress.

Mr. Davis stated that the Committee on Legislation of the Presidents' Conference proposed to study the comments that had been received from the Federal Reserve Banks on the bill and consolidate

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them into a statement that would be submitted to the Board for consideration and it was understood that the legislative situation was such that there would be ample time for the Committee to do that.

Chairman Eccles said that the Board would prefer not to have hearings on the bill at this session or until such time as it was believed that the legislation would be given active consideration by the Congress.

Mr. Clerk presented three questions with respect to the bill which were discussed and Mr. Davis stated that these questions would be covered in the statement to be presented to the Board by the Committee on Legislation.

In connection with the proposed amendment to section 13 of the Federal Reserve Act and the repeal of section 13b as proposed in the Board's letter of May 17, 1946, to the Presidents of all Federal Reserve Banks, Chairman Eccles stated that there was no support for the proposed amendment to section 13b introduced in Congress at the suggestion of the Board last year and that the present proposal had been suggested in an effort to get rid of section 13b in its present unsatisfactory form, and, if Congress saw fit to give the Banks authority in the form of the new amendment, to create an instrument for the provision of necessary credit without involving the use of the Government funds. He did not know what the attitude of the Treasury or other interested agencies of the Government would be as

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the Board wanted to ascertain the attitude of the Federal Reserve Banks before taking the matter up with other agencies or with the Congress. He added that because of the present campaign of the Reconstruction Finance Corporation to promote its blanket participation agreement plan, it might be desirable for the Board to take the matter up with the Treasury and see if it would favor the proposal and the limitation of the activity of the Reconstruction Finance Corporation in the loan guaranty field because of the unsound and inflationary aspects of that program.

Mr. Szymczak suggested that the Presidents give the Board a statement of the information that had come to their attention with respect to the unsound aspects of the Reconstruction Finance Corporation program, and it was understood that such a statement would be prepared as promptly as possible. It was also understood that the Reserve Banks that have not yet responded to the Board's letter of May 17, 1946, would do so.

In response to an inquiry whether the Presidents favored the amendment as proposed by the Board, Mr. Sproul stated that the Banks were generally favorable to it but that some of the Presidents questioned whether, if the new amendment were not adopted, the System should suggest that the present section 13b be repealed, but that others felt that if the broader authority was not to be given the present authority might very well be discontinued. These two views

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were discussed briefly together with the question of the best way to get consideration of the new amendment by Congress.

Mr. Davis stated that if the bill were introduced there were two suggestions made during the discussion at the Presidents' Conference which it was believed would make the bill more acceptable. It had been suggested he said, that the extension of credit by a Federal Reserve Bank to a business concern should be limited to cases where the business concern was unable to obtain requisite financing assistance on a reasonable basis from the usual sources, and that there should be some limitation on the total amount of such credit that might be extended by the Reserve Banks. Mr. Davis said the limitation might be related to the surplus funds of the Banks.

Chairman Eccles said that it has been the thought that these points could be covered by regulation, but that if it would make the bill more acceptable, the Board would have no objection to the addition of the two provisions.

In a further discussion, it was understood that when the statement to be submitted by the Presidents regarding the Reconstruction Finance Corporation blanket participation agreement was received, Chairman Eccles would take the statement, together with such endorsement or such supplemental statement as the Board might wish to make, to the Treasury and call attention of the Treasury to the unsound and inflationary effects of the Corporation's program.

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Mr. Vardaman suggested that the matter might be taken up with Mr. Snyder while he was still Director of War Mobilization and Reconversion.

Mr. Vardaman left the meeting at this point to keep another appointment.

Turning to the Hays Bill (H. R. 5630) Chairman Eccles stated that the Board was aware of the effects that the present discriminatory limitation on the establishment of branches by national banks was having on membership in the Federal Reserve System but that it was not believed, for reasons which he outlined, that there was any possibility that the Hays Bill would be considered at this session of Congress. He said that the Chairman of the Federal Deposit Insurance Corporation was opposed to the bill and had asked for an opportunity to be heard if hearings were held.

Mr. Sproul stated that it was understood that the Board had suggested some changes in the bill, and he inquired whether it would be possible for the Board to propose a bill containing these changes and possibly changes that might be suggested by the Presidents' Conference Committee on Legislation, to be introduced by the Chairmen of the Banking and Currency Committees.

Chairman Eccles said that this might be possible at the next session of Congress but that this was only one of a number of things of importance to the System that should be incorporated in such a bill.



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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 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.

Chairman Eccles stated that the Board joined with the Presidents in the approval of the recommendation of the Special Committee on Bank and Public Relations with respect to this topic.

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.

Mr. Sproul stated that the change in the law proposed by the Presidents might be included in the bill which Chairman Eccles had suggested might be introduced at the next session of Congress, and Chairman Eccles replied that the Board would be favorable to such a step but that there was nothing that could be done with respect to the Presidents' recommendation 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. Sproul stated that it was the feeling of the Presidents that the Board's proposal had been productive of a considerable amount of feeling on the part of the banks that would be affected by it and that action by the Board on the basis suggested would be a patchwork and illogical action and should not be taken until the whole matter had been reviewed. He said that it was the understanding of the Presidents that the Board had decided that nothing would be done until the problem had been given careful and thorough study.

Chairman Eccles was of the opinion that the reasons for the member banks' objections to the proposal were erroneous but that the matter was not of sufficient importance to justify the Board in incurring the ill will of the banks to the extent that it would by adopting the proposal, and that the only real solution of the problem was by legislation to change the entire basis upon which reserve requirements of member banks would be computed. This was also a subject, he thought, that should be carried over until the next session of Congress when it might be incorporated in the bill referred to above.

Mr. Sproul stated that such a decision would be in accordance with the Presidents' views.

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It was also stated that Messrs. Szymczak and Vardaman had been requested by the Board to make a recommendation on the matter and Mr. Szymczak asked if there was a Committee of the Presidents' Conference with which he and Mr. Vardaman could consult. Mr. Sproul suggested they confer with the Committee on Research and Statistics and the Committee on Legislation under the chairmanship of Messrs. Williams and Davis, respectively.

Chairman Eccles concluded the discussion on this point by the statement that the Board would like the interested member banks to know that the Board would not take action on the proposal to discontinue the designation of reserve cities until the matter had been thoroughly considered, and that as suggested in the Board's letter of May 7, 1946, the Presidents were at liberty to advise banks in their respective districts that no immediate action would be taken.

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.

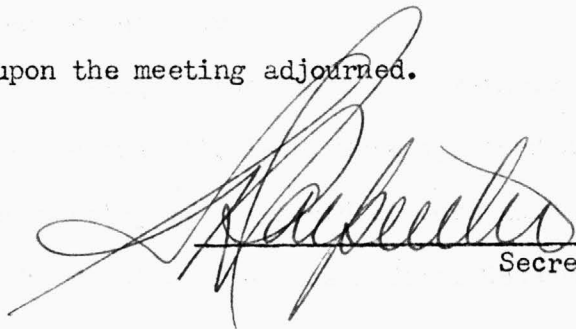
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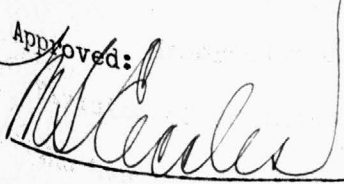
Chairman Eccles stated that the Board agreed with the views of the Presidents in this matter, that consideration was being given to the uniform conditions to be prescribed for all banks admitted to membership in the System in the future, and that the Board would re-view the special conditions that had been prescribed in the past with a view to their elimination as rapidly as possible so that in time the conditions of membership for all banks might be uniform.

Mr. Sproul responded that that was what the Presidents had in mind.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.