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 Friday, June 6, 1947, at 2:40 p.m.

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

Mr. Carpenter, Secretary

Messrs. Whittemore, Sproul, Williams, Gidney, Leach, McLarin, Young, Davis, Peyton, Leedy, Gilbert, and Earhart, 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

The Presidents' Conference held a separate meeting in Washington on Wednesday and Thursday, June 4 and 5, 1947, and a memorandum of the actions taken by the Conference on matters to be discussed with the Board was distributed to the members of the Board and the Presidents before this meeting. At a separate meeting of the Board held this morning the actions of the Presidents' Conference were considered. The discussion of each of these matters at this joint meeting was substantially as follows:

1. <u>Maximum deferment of credit for cash items and receipt of unassorted cash items in one cash letter</u>. The

Conference received through the Committee on Operations the report dated May 13, 1947, of the Committee on Collections. The Conference approved the recommendations of the Committee on Operations that each Reserve Bank have the option of accepting all cash items, immediate and deferred, or all deferred cash items, in one cash letter from all member and nonmember clearing banks and their out-of-town branches that have total deposits of not more than five million dollars, or from any such bank or out-of-town branch that does not have a daily average of more than five hundred items. Such cash letters would be accepted for a flat deferment on the basis of average availability. The Committee on Collections expressed the belief that average deferment of one day (instead of two days) might be given in a majority of cases where all immediate credit items as well as deferred credit items are included. As pointed out on page 4 of report of the Committee on Collections, 63 per cent of all member and nonmember clearing banks and 90 per cent of all other nonmember banks have total deposits of $5 million or less. The Presidents believe that this proposal is workable, will not unduly burden the Reserve Banks, and will not substantially increase the amount of float.

Mr. Sproul stated in connection with this matter that the Presidents' Conference had requested its Committee on Operations to appoint a new committee to make a study of the check collection system of the Federal Reserve Banks, its origin, use, and development, and that the new committee would begin its work immediately. He said that the procedure recommended by the Presidents as set forth above would relieve some of the problems existing in varying degrees in the different Federal Reserve Banks.

Chairman Eccles stated that the Board felt that any action taken in the direction of the Presidents' statement should not be optional with the different Federal Reserve Banks but should be adopted uniformly by all of the Banks, that the check collection system had been slow in making desirable changes, and that it should have rendered better service than had been given in the past. He added that the Board favored a proposal that the Federal Reserve Banks receive, on a one-day deferment, unassorted cash letters from banks which did not have an average of more than 500 items a day, it being recognized that it might be desirable to require the banks to sort immediate credit items so that they could be presented on the day of receipt and that on all cash letters of more than 500 items a day, where the usual sorts would be continued, the Board would favor a maximum deferment of two days. He emphasized that the check collection services of the Federal Reserve Banks should be as uniform as possible for the reason that the System should not be in a position where one Federal Reserve Bank was giving substantially different services to its member banks than were rendered by the other Reserve Banks. He made the further statement that the Board would study the matter further and advise the Banks what it would propose and the Presidents would have an opportunity to submit comments or criticisms of the proposal.

Mr. Leach, Chairman of the Presidents' Conference Committee on Operations, stated that the Presidents had in mind a service for the smaller banks similar to that which they might obtain from their correspondents. It was immaterial, he said, whether the test, to determine which small banks would be eligible for the service, was banks having an average of not more than 500 items a day or banks having total deposits of not more than 5 million dollars.

There was a discussion of the changes proposed by the Presidents' Conference and the changes favored by the Board and how these changes would affect the services rendered by the various Federal Reserve Banks to their large and small member banks. The discussion indicated that the views of the Presidents and the Board were not far apart.

In response to an inquiry from Mr. Sproul as to whether nothing should be done on the matter at this time, Chairman Eccles stated that the Board felt that whatever action was taken should be to make the service as nearly uniform as possible at all of the Federal Reserve Banks, and that the Board would prefer to defer action until the matter could be given further study and the proposals submitted to the Presidents for consideration and, if necessary, for discussion at the next meeting of the Presidents' Conference.

Mr. Gilbert said that the thought had been that it might be possible for some of the Federal Reserve Banks to put the arrangement proposed by the Presidents' Conference into effect as an experiment over the next three or four months so that the Banks could see what the results would be. Chairman Eccles replied that it probably would take a considerable time to test the proposed procedure.

Mr. Sproul stated that there was only an appearance of uniformity at the Federal Reserve Banks at the present time and that the proposal of the Presidents would formalize the existing situation somewhat and at the same time liberalize the requirements as to sorting and deferred availability. He also suggested that if the matter was to take the course proposed by Chairman Eccles it would be better for representatives of the Board and the Federal Reserve Banks to work out a plan which could be submitted to the Presidents and the Board for consideration.

Chairman Eccles commented that the Board would have its staff make a further study of the problem and the reasons that might be advanced for and against the arrangement proposed by the Board, that any questionable features of the proposal would be checked with the Federal Reserve Banks before a recommendation was made to the Board, and that the proposal would be submitted to the Presidents for consideration prior to the next joint meeting of the Presidents and the Board.

It was understood that the proposal of the Presidents set forth in item 1 would be held in abeyance until the next meeting of the Conference.

> 2. Reimbursement of direct sending banks for shipping costs. The Presidents believe that it is basically sound for member banks, both local and country, to route cash items payable in other Reserve Districts direct to Reserve Banks and branches serving the communities where the items are payable, in all cases where the volume is sufficient to warrant such practice, and that such practice should be encouraged in every way. The Conference approved the recommendation of the Committee on Operations that all Reserve Banks and branches reimburse their member banks for postage or other transportation costs on all cash items routed direct to other Reserve Banks and branches, it being understood that such recommendation should be put into effect at the same time that the Reserve Banks are authorized, at their option, to accept cash items in one letter as stated under item 1.

Chairman Eccles stated that the Board was in favor of the position taken by the Presidents' Conference but felt that the practice of direct sending should not only be encouraged but should be mandatory on the banks where the volume was sufficient to justify it.

Mr. Leach stated that the Presidents' Conference Committee on Collections had recommended that no Federal Reserve Bank should accept from any member bank a daily average of more than 500 items payable in the territory of another Federal Reserve Bank or branch but should require such bank to route such items direct. The Committee on Operations and the Presidents' Conference, however, felt that a mandatory rule of thumb should be avoided.

Chairman Eccles expressed the opinion that the recommendation of the Committee on Collections should be approved and, in response to an inquiry, he said that it should be put into effect immediately without regard to a decision on the question of maximum deferments and receipt of unassorted items discussed earlier during this meeting.

Mr. McLarin suggested that the average daily number of checks required for direct sending be placed at 100 instead of 500 items. Several of the Presidents expressed the opinion that any Federal Reserve Bank could undertake to get member banks in their respective districts to send direct as small daily average number of checks as it might wish but that the number required for mandatory direct sending should not be less than 500. It was agreed that the Federal Reserve Banks should reimburse their member banks for postage on cash items sent direct to other Federal Reserve Banks regardless of the number of checks involved.

Chairman Eccles stated that the Board would send a letter to the Federal Reserve Banks confirming the understanding expressed above and set an effective date for the procedure. The Presidents indicated their concurrence in the Chairman's proposal.

3. Custody of short-term Government securities for nonmember banks. The Conference reviewed (a) the Board's letter S-569 of October 14, 1942 (Fed. Res. L.L. Serv.

#3061.1) stating that it would offer no objection to a Reserve Bank's holding in safekeeping Treasury bills and certificates of indebtedness for the duration of the war in accordance with action taken by the Conference at its meeting of September 25, 1942, and (b) the Board's letter S-974 of May 6, 1947, requesting that if any Reserve Banks now have such custody accounts for nonmember banks they take steps to terminate them by July 1, 1947. Following receipt of the letter S-974 some of the Reserve Banks notified nonmember banks for which they were holding such securities that this service would no longer be available; others have adopted a more gradual procedure. The Presidents are in accord with the desirability of terminating the service, but believe that it should be terminated in accordance with the conditions prevailing in each district and surrounding each such custody, so as to minimize any adverse effect from the point of view of bank and public relations. The Presidents believe, therefore, that Reserve Banks which now have such custody accounts should notify the nonmember banks involved that they will refrain from accepting new custodies on or after July 1, 1947. Since all of the securities involved in such custodies mature within a year, the custodies would be terminated within a reasonable time and in an orderly fashion.

Chairman Eccles stated that the Board was in agreement with the Presidents' suggestion with the understanding that after July 1, 1947, the Federal Reserve Banks would not accept further securities for safekeeping from nonmember banks and that such custodies would be terminated within one year from that date.

Mr. Sproul said that that was the intention of the Presidents' statement.

4. <u>Possible discontinuance of reimbursement for expense of "service units"</u>. The Conference approved the recommendation of the Committee on Fiscal Agency Operations and Reimbursable Expenses that the Banks should not discontinue making

charges to fiscal agency units for expenses incurred in the so-called "service units" referred to on page 4 of the revised Functional Expense Manual. The Conference believes that the policy of reimbursement is a sound one regardless of the fact that part of our earnings are now turned over to the Treasury, and that the principle should be maintained. The Conference had in mind, of course, that one of the principal objectives of the recent revision of the service charge formula was to eliminate charges for inconsequential costs which could not be accurately computed without an unreasonable amount of accounting, and understood that similar situations which might arise in the future would be subject to review through established procedures.

Chairman Eccles said that the Board was in agreement with the above statement, but that the Board and the Presidents should keep in mind that if at any time the amounts requested by the Treasury for reimbursement of the Federal Reserve Banks should become controversial so far as the Budget Bureau or the Committees of Congress were concerned, or if the Comptroller General should insist on checking into the accounts of the Federal Reserve Banks to see if appropriated funds were properly expended, the Board would want to consider the matter again, because under such circumstances it might be desirable to discontinue asking for reimbursement for expenses of the kind referred to by the Presidents.

5. Transfer of activities from branches to head offices of Reserve Banks. It is not clear to the Presidents what the Board had in mind when it suggested that the Presidents consider the transfer of activities from branches to head offices of Reserve Banks when the transfer might reduce services rendered member banks or the public in the community

served by the branch. The Presidents will be glad to learn what the Board has in mind and to discuss it with the Board.

It was explained that the question which the Board suggested for consideration by the Presidents was raised by the proposal of the Treasury to transfer certain activities in connection with the redemption of savings bonds from the branches to the head offices of the Federal Reserve Banks and that it was the opinion of the Board that, while the concentration of activities at head offices might reduce operating expenses, it would be undesirable to change the services rendered by the branches to their member banks at this time.

Chairman Eccles said that it was the view of the Board that the question of economy of operation should not be the sole factor in determining the services to be performed by branches of the Federal Reserve Banks, that greater economy could be effected by greatly reducing or eliminating the work performed by the branches, but that in general the services performed were well worth the costs involved.

Mr. Sproul commented that there was no feeling on the part of the Presidents that the activities of the branches should be reduced where they were performing useful services.

6. Job evaluation and classification. The report dated May 29, 1947, by the Chairman of the Subcommittee

on Job Evaluation of the Committee on Personnel was presented to the Conference by the Committee on Personnel. Copies of the report have been made available to the Board. As pointed out in that report, each Reserve Bank has analyzed, described and evaluated its jobs in terms of their relative difficulty and importance and has classified all jobs into a single uniform classification framework for all Reserve Banks. This step will assure the Board of consistent classification of jobs, Bank to Bank, in relation to their relative difficulty and importance. The final fixing by each Bank of the proposed minimums and maximums for its salary grades remains to be done. The Presidents are in agreement that the pay for jobs at each Bank should be related to rates paid in the various cities by the progressive industrial, commercial, financial and utility enterprises. The Presidents believe that, in general, the mid-point of the salary ranges of the respective Reserve Banks should be in the third quartile of this quality community rate structure. The Banks would thus be with the leaders in salary administration in their respective areas. Accepting these principles for the pricing of the salary grades at the various Banks and branches, variations in salary structures will result but they may be expected to be less than the variations now existing between the Banks and branches for comparable work. The Presidents feel that, under the above principles, it is appropriate that there be as many salary schedules as required in order to have sound salary administration at each Bank and adequate over-all salary control.

Chairman Eccles stated that this matter had been considered for a long time and that the Board had discussed it again after receiving the views of the Presidents' Conference as set forth above. He said that it was recognized that considerable progress had been made in that all positions had been classified into 16 grades which were uniform at all of the Reserve Banks. This was a real achievement, he said, but there was a variation in the tentative maximum salary scales proposed at the various Banks of 40 per cent or more. He added that the Board was studying this phase of the problem and expected to work out an arrangement so that the variation would not be more than 25 per cent. There was a further question, he said, whether each Federal Reserve Bank should be permitted to fix its salary line anywhere within the area of a 25 per cent variation or whether, as discussed at the last meeting of the Presidents and the Board, there should be only three or four salary scales for all of the Federal Reserve Banks. He added that the Board had given a great deal of consideration to that point and hoped that the number of different scales could be reduced very materially, but that it had not reached a final decision as to what it would be willing to approve other than that the variation should be reduced to not more than 25 per cent which it was believed could be done without a great deal of difficulty. He made the further comment that the Board would consider the matter and advise the Banks what it would consider an appropriate program.

Mr. Williams said that the Federal Reserve Banks were confronted now with the necessity of making further salary adjustments, that, therefore, a decision on the salary scales to be adopted by the respective Banks should not be delayed much longer, and that in spite of the shortage of time for the consideration of all of the matters on the agenda for this meeting he thought it would be worthwhile to discuss the problem of salary scales further. He also said that the Federal Reserve Banks had spent approximately $500,000 on the evaluation and classification of jobs at the Banks using the best known methods of modern wage administration; that some very valuable results have been achieved since the Banks now have carefully drawn statements of the current content of all jobs, as well as measures of the importance of the various jobs, and knowledge of the relationship of one job to another; that the Banks will have achieved internal consistency in job relationships and the salaries that should be paid, and that the concern about the attitude of Congress could be very greatly reduced because of the actions thus far taken.

Mr. Peyton suggested that since he had to leave at 4:30 p.m. the remaining matters on the agenda be discussed after which there could be further discussion of Federal Reserve Bank salaries. This procedure was agreed to.

7. Annual, sick, and other leave. The Conference considered the Board's letter of March 5, 1947, to the Chairman of the Conference stating that it has been suggested that consideration be given to the adoption of an arrangement under which the Board would approve a schedule of annual, sick, and other leave that might be granted to officers and employees by the Reserve Banks, with the understanding that within the limits established by the schedule each Bank would have discretion to fit its leave policy to local conditions. The Presidents reviewed the present policy of the Board with respect to leaves of absence as set

forth in its letter S-904 of March 14, 1946 (Fed. Res. L. L. Serv. #9120). The Presidents believe that the general policy expressed in the Board's letter S-904 is sound and workable and do not think that there should be any substantial departure from this policy.

Chairman Eccles stated that the Board felt that the Presidents had missed the point of the Board's letter of March 5, 1947, that what the Board had in mind was the establishment of a schedule of maximum sick and annual leave within which the Federal Reserve Banks could adapt their leave policies very much the same as the salary policies of the Banks could be fixed within the salary scales which it was expected would be approved by the Board. It was the view of the Board, he said, that sick and annual leave were an essential part of personnel and salary policy, that there should be greater uniformity at the Federal Reserve Banks, and that the Board should have a more definite policy than was the case at the present time.

Mr. Sproul responded that the Presidents understood the purpose of the Board's letter but thought that the present arrangement and the policy expressed in the Board's letter of March 14, 1946, with respect to extended sick and annual leave were desirable and should be continued. He added that this matter involved the question where responsibility for general supervision ends and local management begins, and that it was the view of the

Presidents that sick and annual leave was a matter that properly could be left to the directors of the Federal Reserve Banks and the executive officers, subject to review by the auditors for the Federal Reserve Banks and the examiners for the Board. Also, he said, the establishment of a uniform over-all schedule as proposed by the Board would not accomplish the objectives sought but would create the difficulties which would attend an attempt to apply a uniform schedule to varying institutions under varying conditions.

Chairman Eccles said that the Board did not feel that it could approve a job evaluation and salary classification plan and ignore the question of sick and annual leave because such leave was a part of a complete personnel and salary policy and would have to be taken into account and considered together.

Mr. Peyton suggested that the Board was in a position to exercise the necessary supervision of sick and annual leave by having its examiners report any cases that appeared to be out of line, to which Chairman Eccles responded that the Board had no satisfactory policy on the matter and that it could not be in the position of saying that it had an established policy with respect to salaries, retirement, and other matters affecting personnel but had left the question of sick and annual leave to the Federal Reserve Banks for determination.

Mr. Peyton stated that sick and annual leave was a matter that might properly be left to the Federal Reserve Banks.

Chairman Eccles replied that the Board did not agree, but felt that it was the Board's responsibility to establish a maximum schedule within which the Banks could establish their individual policies to meet local conditions.

Mr. Sproul stated that the Board had a specific statutory responsibility for the approval of salaries and that, while the other things mentioned by Chairman Eccles were related to salaries, there was a point at which general supervision should end and local management begin, that otherwise it could be said that the Board should inquire into the conditions under which employees were required to work, the question of rest periods, etc., and that the Board should be careful not to get into that position.

Mr. Whittemore said that it had been his experience that the adoption of a fixed leave policy increased absenteeism and was subject to great abuse.

After a brief discussion as to how Civil Service provisions with respect to sick and annual leave had worked, Chairman Eccles stated that the Board was not trying to interfere with the management of the Federal Reserve Banks or to say to the Banks whom they would employ, the positions in which employees would be placed, how many employees should be hired in a given classification, or who should be promoted. He added that it was in this field that management was operative, and that what the Board wanted to be able to say was not that it had put into effect a schedule of sick and annual leave which the Banks were required to follow, but rather that it had adopted a maximum schedule within which the Banks would determine their local policies. Such a schedule, he said, would enable the Board to say that it had a policy and the question whether a Bank saw fit to put the maximum schedule into operation or some lesser schedule would be a matter for its own decision. He made the additional comment that the reason why, in the Board's opinion, such an over-all schedule was necessary was that the Board of Governors was the only agency that had any responsibility for the supervision of the Federal Reserve Banks, that practically every other agency of Government was subject to supervision by the Comptroller General as the representative of Congress, that the Board must determine what its responsibility was as a result of that relationship, and that it did not want to be in a position where it could be accused of having failed to discharge that responsibility.

Mr. Williams questioned whether the Board would be discharging its responsibility by establishing a labyrinth of rules, and Mr. Sproul said that the policies followed by the Banks were well known to the Board and were determined by the boards of directors and administered by the officers of the Banks in whom the Board had confidence, that the Board's examiners checked into the practices of the Banks to see that they were in accordance with the policies established by the directors, and that in his opinion that arrangement enabled the Board adequately to discharge its responsibility in the light of the regional character of the Reserve System.

Mr. Gidney inquired whether the Board felt that the Banks should be more liberal or less liberal in their leave policies. Chairman Eccles replied that some of the Banks might be more liberal. Mr. Peyton expressed the view that, if the Board were to approve a maximum schedule, the employees of a Bank would look upon this maximum as their prerogative even though the Bank were to adopt a lesser schedule, and this would result in bad employee relations.

Mr. Whittemore suggested that to institute a system of accrued leave under which the employees would be entitled as a matter of right to accumulate leave would be the cause of a great deal of trouble at the Federal Reserve Banks, that there was not a great divergence in the leave policies followed by the various Reserve Banks and that it would be relatively easy in the two or three cases that might not be sufficiently uniform to bring the Banks into approximate uniformity which would enable the Board to say to the Congress what the practice of the System was without the necessity of formalizing the practice to the extent of issuing a maximum schedule of sick and annual leave.

Chairman Eccles stated that the Board's letter was sent with the thought that the Presidents would express their views, that the Board had not formulated any definite ideas as to what might be done, but that it did feel that the present situation was not a satisfactory one.

Some of the Presidents proposed that Mr. Whittemore's suggestion be adopted and Chairman Eccles said that the Board would have no objection to that procedure as it would show that the matter had been considered by the Presidents and the Board as a System matter and that the leave granted was recognized as a part of the compensation and salary policy. He suggested, however, that Mr. Whittemore's suggestion be supplemented by the Board bringing up to date its information with respect to the policies followed by the respective Banks and that the Board submit to the Presidents any suggestions that it might have as to changes in existing policies that might be made.

Mr. Williams stated that the personnel officers of all the

Banks would meet in the fall and that they could consider the matter. Chairman Eccles said that the conference of personnel officers working with the Board's staff could consider the various aspects of the problem and submit a report after which a decision could be made as to the action to be taken. It was agreed that this procedure should be followed.

8. Applicability of Federal labor laws to Reserve Banks. The Presidents reviewed the Board's letter of May 9, 1947, to the Chairman of the Conference, referring to a suit against the Detroit Branch of the Federal Reserve Bank of Chicago by a former employee who stated that he was improperly classified as exempt from the Fair Labor Standards Act, and raising a question as to the attitude of the System toward the application of the Fair Labor Standards Act to the Reserve Banks. The Presidents have been informed that the proposed Labor Management Relations Act, 1947, recommended by the Congressional Conference Committee specifically excepts Reserve Banks from the definition of "employer" under the National Labor Relations Act. This would seem to resolve the question underlying the Board's letter. The Conference reiterated the view expressed at its meeting of February 26-27, 1945, that the Reserve Banks should attempt to comply with the provisions of the Fair Labor Standards Act regardless of whether or not it may be held to apply to the Reserve Banks.

Chairman Eccles stated that the Board was in agreement with the Presidents on this matter.

9. Consumer credit - Regulation W. The Conference considered the control of consumer credit. The Presidents would like to discuss this subject with the Board and to be informed of the present status with respect to a possible legislative or executive decision on the continuation of such control and of the present intention of

the Board with respect to the continuation and enforcement of the regulation. The Presidents are impressed with the increasing difficulty of enforcing the present regulation so long as it is based on an executive order rather than specific Congressional legislation.

Chairman Eccles stated that, in connection with hearings before the House Banking and Currency Committee on legislation to continue the Reconstruction Finance Corporation, the Committee asked that he appear before it to discuss the general credit situation, and that he had stated that he would like to testify on the industrial loan bill proposed by the Board (H.R. 3268) and consumer credit legislation. He also said that he appeared before the Committee on Tuesday of this week, June 3, 1947, on the first bill, that the Board sent to the Chairmen of the Senate and House Banking and Currency Committees yesterday afternoon a proposed bill which would authorize the Board to continue the regulation of consumer credit, that copies of the bill and the accompanying explanatory statement of the scope of the bill had been handed to the Presidents, and that he was to testify at a hearing before the House Committee on Tuesday of next week, June 10, 1947, on that bill. He added that the substance of the statement which he would make before the Committee at that time, and which would set forth the reasons why the Board felt that the bill should be adopted by the Congress, had been approved by the Board but was subject to some further revision and, therefore, was not available at this time. He went on to say that he had received a letter today from the President of the United States expressing the opinion that legislation should be enacted and stating that if Congress did not see fit to provide the necessary legislative authority, it was his intention to vacate the executive order because he did not believe that such regulations should rest indefinitely in peacetime on emergency or war powers after the Congress had had ample opportunity to consider the subject. It was proposed, Chairman Eccles said, that in his statement he would say that Congress might enact legislation to be effective without a limit as to time or for a stated period, or that it might adopt a resolution favoring continuation of the regulation of consumer credit under the authority of the existing Executive Order.

> 10. Capital requirements of member banks. The Conference reiterated the belief expressed at its meeting of February 26, 1947, that legislation liberalizing the capital requirements for membership of State banks in the Federal Reserve System should be sought, and particularly that capital requirements with respect to out-of-town branches of member banks should be ameliorated. Several of the Presidents reported additional illustrations since that meeting of the competitive disadvantage of member banks as regards the establishment of branches. The Conference urges that steps be taken to obtain appropriate legislation liberalizing these capital requirements of State member banks.

Chairman Eccles stated that the Board was still of the opinion that it would not be possible to get legislation on this point at the present session of Congress and that it had not suggested a bill because of the greater importance of other legislation that had been proposed for passage at this session.

Mr. Sproul asked if there was a disposition to introduce a bill at the next session of Congress, and whether the legislation had any kind of priority status.

Chairman Eccles responded in the negative and Mr. Szymczak asked if the Presidents felt that a bill should be proposed at this time. Mr. Sproul replied that the problem was becoming more and more important and that the Presidents felt that legislation should be proposed, and some plan of action decided upon with respect to it.

Mr. Davis stated that the Presidents' Conference Committee on Legislation wished to emphasize the opinion that there was no other action that could be taken at this time that would have a more favorable effect on membership in the Federal Reserve System than to get legislation removing the discrimination against member banks on the question of capital requirements.

Mr. Szymczak suggested that a recommendation that legislation be enacted might be included in the Board's annual report.

Following a discussion of the support that might be obtained for the legislation and the opposition to it that might be expected, it was agreed that the Board should include a recommendation of the legislation in its annual report and should take steps looking toward the introduction of a bill at the commencement of the next session.

> 11. Regular and special statistical reports and surveys. The Presidents are concerned because they have found that banks, and to a lesser extent business organizations, are coming to feel that they have been overburdened with reports to the Reserve Banks. Calls for additional reports have, in many cases, met with resistance and not infrequently with expression of irritation. While many reports called for by the Reserve System are recognized as necessary and the results are of interest to those making the reports and to the public, generally, as well as to the System, there is a limit of tolerance. The Presidents believe that the worth of all existing reports should be reexamined and that new reports or special surveys should not be authorized and instituted without taking account of the total burden of our reporting services and the special need and value of the new reports.

Chairman Eccles stated that it was understood that a special Committee recently had completed a survey of a large part of the reports made to the Federal Reserve Banks and had indicated to what extent such reports might be reduced or expanded, that whenever a report was requested by the Board careful consideration was given to the question whether the need for the information would justify the work involved, and that there was no intention or desire to request reports that were not justified. He also said that the Board agreed with the Presidents that it was desirable to review this matter from time to time so that the scope of the System's reports would be kept within proper bounds.

Messrs. Sproul and Williams stated that the objection to recent requests had been made not only because of the possible adverse effect on the public relations of the Federal Reserve Banks with their member banks, but question had been raised also by some of the Research men at the Banks as to whether the results would justify the time and expense involved in submitting the reports, that the statement of the Presidents was occasioned by the comments in connection with the special reports recently requested, and that the statement included a reference to the regular reports so that consideration could be given to the entire problem and to whether the limit of tolerance had been reached on regular reports and the System was in effect exceeding the limit through the use of special reports.

Mr. Sproul made the further comment that the purpose of the discussion was to see if the Board was in sympathy with the Presidents' position and, if so, to suggest that the Board express its sympathy by restraining its staff in making requests for special reports.

Chairman Eccles said that the Board was in sympathy with reducing the number of reports as much as possible consistent with the effective discharge of the System's responsibilities.

12. <u>Bank examination policy and coordination of Federal Reserve policy and supervision policies throughout the</u>

System. The Presidents are in general accord with the views expressed in the Board's memorandum furnished the Presidents at their meeting in explanation of this item (Topic II C 1) which had been suggested by the Board for consideration of the Conference. The Presidents will appoint a committee from their own number to confer with the Board with respect to matters of policy in this field, and believe that matters of practice can continue to be coordinated by means of periodic meetings of the examining staff of the Board and the several Banks.

Chairman Eccles said that the Presidents' statement was an excellent response to the Board's inquiry and that the Board approved the procedure proposed in the statement as a very good way to handle the matter.

13. Absorption of cafeteria expenses. The Conference discussed the Board's letter of May 16, 1947, to the Chairman of the Conference raising a question as to the discontinuance of the practice of furnishing free meals to certain classes of employees and of charging employees for meals whether or not they eat in the dining room or cafeteria. The Presidents believe that this is a matter primarily for local management in the light of the practices in the respective communities. If there is any question regarding a particular practice at a given Bank it would seem possible to solve it by a discussion of that particular question by the Board's examiners and the local management.

Chairman Eccles stated that, under existing authority, the Federal Reserve Banks could absorb up to 50 per cent of the cost of operating their cafeterias which did not include expenses for space, certain equipment, etc., and that if these expenses were included the authorized absorption could amount to between 60 and 70 per cent of the total cost. He said that the Board felt that, in view of the contemplated adoption of the personnel classification plan which would result in the payment of adequate salaries at the Federal Reserve Banks and also of the residual interest of the Government in the assets of the Federal Reserve Banks, the absorption of that proportion of the cafeteria expense was not justified, and that with the prospect of a substantial reduction in food costs and higher salaries at the Federal Reserve Banks it was the Board's view that the Banks should adjust their practice so that by the beginning of 1948 they would not be absorbing more than 25 per cent of the cafeteria expense. He also suggested that, where branches of Federal Reserve Banks had cafeterias which were operating at a loss and other banks in the branch cities did not have cafeteria facilities, the Federal Reserve Banks might consider closing the branch cafeterias altogether.

Mr. Williams said that it was common practice among many of the larger banks and insurance companies to serve luncheon to their employees without cost. Chairman Eccles responded that if that were done it should be made a part of the compensation of the employees and they should understand fully that part of their compensation was in that form.

At this point Mr. Peyton left the meeting.

14. <u>Travel expenses of officers and employees of Federal Reserve Banks</u>. The Conference reviewed the Board's letter of

May 8, 1947, to the Chairman of the Conference, suggesting that consideration be given to a schedule which would be comparable to that contained in the Board's recently revised regulations covering official travel by the members of the Board and its staff. The Presidents discussed the practices at the various Reserve Banks in the light of varying costs and conditions in different parts of the country, and the responsibility of the directors of the individual Banks for the proper management thereof. The Banks will continue to review their own internal practices and will exchange with each other information regarding their respective practices.

Chairman Eccles said that there was a substantial variation in the practices of the different Federal Reserve Banks in reimbursing for travel expenses, and that it would be difficult to justify substantial differences in the allowances to examiners for the Federal Reserve Banks, the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. He agreed that the allowances under the standardized Government travel regulations were too low but felt that too great a differential between these allowances and the amounts allowed to Federal Reserve Bank examiners would not be justified. He added that the important thing was the determination of a policy.

Mr. Sproul suggested that the same procedure be adopted for the solution of this problem as was proposed in connection with the item on sick and annual leave and this was agreed to.

Referring to the allowances authorized by the Board to its examiners who examine the Federal Reserve Banks, Mr. Davis stated that he understood that they were finding it impossible to make the allowances cover their expenses. He suggested that the Board might allow them actual expenses for hotel accommodations and a flat per diem for other allowable expenses other than transportation.

Chairman Eccles stated that since the Board's examiners were working constantly in the larger cities where travel expenses were higher, the Board might be justified in allowing an additional per diem of one dollar which he believed the examiners would prefer to an actual expense basis for hotel accommodations.

> 15. Outside business connections of officers of Reserve Banks. The Conference discussed the Board's letter of May 9, 1947, to the Chairman of the Conference regarding Reserve Bank officers engaged in outside business activities for compensation, and they reviewed the practices at each Bank in this respect. The Presidents see nothing in this situation involving any major matter of supervision.

Chairman Eccles stated that the Board had no further comment on this matter at the moment, that it would like to review again the existing situations at the various Federal Reserve Banks, and that it would communicate further with the Banks.

Job evaluation and classification - further discussion of topic 6 referred to above. Mr. Williams referred to the opinion of the Presidents that in general the mid-point of the salary ranges of the respective Reserve Banks should be in the third quartile of the salary structure of the respective Federal Reserve Bank and branch cities as shown by the salaries paid by the progressive industrial, commercial, financial, and utility enterprises. He said that to accomplish that would take a year or two as well as considerable management skill and careful changes within the respective Banks, and that if the Banks were required to make the change quickly it would result in many difficulties, particularly in the Banks where the salaries were low. In some cases, he said, it would require very large increases in salaries which would destroy proper differentials between jobs, would result in unexpected increases in salaries which would make the employees feel that they had not been adequately paid in the past, and would adversely affect employee morale.

Chairman Eccles stated that, in addition to the question of the variation between salary scales adopted by the respective Banks, there was the question whether the plan finally approved should permit a different salary scale for each Bank and branch or whether, on the basis of a 25 per cent variation between the lowest and the highest minimum salary for each grade, there should be three intermediate steps with the understanding that the minimum salary fixed by a Federal Reserve Bank for the grade would be the one of the five minimums which most nearly fitted the community salary structure referred to in the Presidents' statement. If this were done, he said, where there was only a small difference of a few dollars in the minimums as proposed by different Banks, the minimums could be made the same as one of the five proposed minimums so that there would be, in effect, five different scales within the 20 or 25 per cent variation instead of 34 different scales.

Mr. Sproul said that the Presidents did not believe it would be possible immediately to reduce the variation to 25 per cent without doing violence to the internal arrangements of the Banks and the relationships between jobs, but that it could be worked out over a period of time.

Mr. Evans said that it was not the Board's intention that the five scales referred to by Chairman Eccles would necessarily be straight lines but that they should fall within the variation of 25 per cent.

Mr. Davis commented that, if at the Banks where the salaries were low the scales were pushed up to bring the Banks within the 25 per cent variation, it would mean such abrupt and large increases in some cases that it would be bad from a personnel standpoint, and that the Presidents felt that instead of doing it quickly the policy should be to move toward a maximum variation of 25 per cent as rapidly as possible.

There was a discussion of the extent to which the Banks might have difficulties of the kind referred to by Messrs. Sproul, Williams, and Davis and in view of the fact that no decision was to be made on the questions of policy involved at this meeting Mr. Williams inquired what the procedure should be at the Banks in making further salary adjustments which would have to be approved in the near future. He proposed that such adjustments be made in the light of the principles set forth in the Presidents' statement with the thought that the changes made now in accordance with those principles would make smaller changes necessary later on.

In connection with the statement by Mr. Whittemore that there were a few cases in his Bank where old employees were getting higher salaries than would be provided under the salary scales finally adopted by the Bank, several of the Presidents stated that it was understood at the beginning of the studies of the new personnel classification plan, and the employees of the Federal Reserve Banks were so advised, that the adoption of the revised plan would not result in the salary of any employee being reduced.

Chairman Eccles said that it would not be possible to adopt the revised classification plans by July 1, as proposed at the last meeting of the Presidents and the Board, that the Board could not defend a plan under which there was a variation of as much as 40 per cent, and that, therefore, further study would have to be given to the problem.

Following a discussion of the time that might be required to bring the salary scales within a variation of not more than 25 per cent between the highest and the lowest scale, Chairman Eccles stated that in the past the Federal Reserve Banks had been influenced to a very great extent in their salary policy by the local banks which had been notorious for their low salaries, and that, if the plan that was finally adopted by the System would demonstrate that adequate salaries were being paid, the System would have something that it could defend.

Mr. McLarin inquired whether, pending a decision on the classification plan, the Board would permit a Federal Reserve Bank to increase salaries above the existing authority granted by the Board. In response to an inquiry he stated that his Bank had already largely exhausted that authority and could not increase salaries further without additional action by the Board.

Mr. Sproul suggested that any Federal Reserve Bank that needed additional authority should take the matter up with the Board on an individual basis. It was understood that this procedure would be followed.

Current Legislative Situation. Chairman Eccles reviewed the present status of the industrial loan bill (S. 408) and the bank holding company bill (S. 829 and H. R. 3351) and there was a general discussion of the steps that might be taken to indicate the desirability of the enactment of these bills.

He also referred to the letter sent to Chairman Wolcott of the House Banking and Currency Committee yesterday with further regard to the liberalization of the limitation on Federal Reserve branch bank building costs. Copies of the letters had been handed to the Presidents and Chairman Eccles stated that Chairman Wolcott had told him orally that he did not think there would be any difficulty in getting approval of a bill which would authorize the Board to approve expenditures of not to exceed $10 million.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.