Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 7, 1947. The Board met in the Board Room at 12 noon.

PRESENT: Mr. Eccles, Chairman
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Sherman, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Bethea, Director of the Division of Administrative Services
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Van Fossen, Assistant Director of the Division of Bank Operations
Mr. Horbett, Assistant Director of the Division of Bank Operations
Mr. Young, Assistant Director of the Division of Research and Statistics

Reference was made to a draft of a letter to the Presidents of all Federal Reserve Banks and members of the Federal Advisory Council which had been prepared pursuant to the action taken at the meetings on July 11 and July 18, 1947, describing a plan for designating reserve cities which the Board might select to become effective January 1, 1948. The plan provided that after the effective date central reserve cities would include New York and Chicago and reserve cities would include: (1) Federal Reserve Bank and branch cities (except New York and Chicago) and Washington, D. C. (2) Every
other city in which member banks (exclusive of their offices in other cities) have held, on every call date in the two years ended June 30, 1947, interbank deposits equal to 1/2 of 1 per cent or more of total interbank deposits held by all member banks in the United States.

(3) Every other presently designated reserve city in which member banks (exclusive of their offices in other cities) have held on every call date in the two years ended June 30, 1947, interbank deposits equal to 1/4 of 1 per cent or more of total interbank deposits held by all member banks in the United States, provided that the Board would consider terminating the reserve city designation of any such city if member banks in the city holding a preponderance of interbank deposits so request.

Chairman Eccles raised the question whether, instead of having a "twilight zone" consisting of certain cities which might be terminated as reserve cities upon the request of banks holding a preponderance of interbank deposits in such cities, it would be preferable to have a fixed percentage in the formula which would provide that all cities in which member banks held less than 1/4 per cent of interbank deposits of all member banks in the United States would be terminated as reserve cities, and all cities having more than that percentage would be required to be reserve cities.

It was the view of the Board members present that the fixed percentage
would be preferable, and it was noted that under such a proposal the reserve city status of 14 cities (Toledo, Cedar Rapids, Dubuque, Grand Rapids, Peoria, Sioux City, Kansas City, Kansas, Pueblo, St. Joseph, Topeka, Galveston, Waco, Ogden, and Spokane) would be terminated, and two cities (Chattanooga, Tennessee, and National City, Illinois,) which were not previously designated as such, would be required to become reserve cities.

There was a discussion of the period within which the Board should review reserve city designations, and it was suggested that a general review should be made after five years, and that the Board should review the designations in individual cities within a shorter period of time if circumstances warranted such action. Chairman Eccles pointed out that, under this procedure, if interbank deposits in a city such as Chattanooga fell below 1/4 per cent of interbank deposits in the United States, the Board could, upon request, terminate the reserve status of the city.

There was also a discussion whether the plan should be presented to the Presidents of the Federal Reserve Banks and members of the Federal Advisory Council with a request for comments or whether it should be presented to them as a plan definitely selected by the Board to become effective January 1, 1948, and there was general agreement that the letter transmitting the plan should indicate that
it had been selected and would become effective on the date specified. Chairman Eccles pointed out that there would be an opportunity for discussion of the plan at the meeting of the Federal Advisory Council in September and at the Conference of Presidents in October, and that it would be possible, if it seemed desirable, to modify the plan before it was published in the Federal Register in accordance with the procedure required under the Administrative Procedure Act.

Upon motion by Mr. Vardaman, it was agreed unanimously that the letter should be redrafted to incorporate the changes discussed, and that, after the letter had been approved by Mr. Clayton, it would be submitted to the Board for approval.

At this point Messrs. Horbett and Young left the meeting.

Mr. Evans then brought up the question of the communications to be sent to the Federal Reserve Banks pursuant to discussion at the meeting of the Board and the Presidents on June 6, 1947 with respect to (a) travel expenses of officers and employees of Federal Reserve Banks, (b) absorption of cafeteria expenses, and (c) annual, sick, and other leave, and he asked Mr. Nelson to discuss the proposals tentatively drafted by the staff.

Mr. Nelson stated that the understanding at the June 6 meeting of the Presidents and the Board was that the question of uniform travel expense allowances would be discussed at the meeting of the
Personnel officers of the Federal Reserve Banks in October, that a
draft of a proposal which could be used as a basis for discussion
at that meeting had been prepared which would set maximum travel
allowances for officers and employees of the Federal Reserve Banks
at levels similar to those in effect under the Board's travel regu-
lations, and that he suggested this draft be sent informally to the
personnel officers for their consideration prior to that meeting.

Mr. Clayton stated that he felt consideration of this matter
did not belong in a group of personnel officers, that it was a mat-
ter for consideration by executive officers of the Federal Reserve
Banks, and that a study of the question should be made under the
supervision of the member of the Board having the assignment for
initial consideration of expenditures of Federal Reserve Banks.

Chairman Eccles said that he understood the Board was to
submit to the Presidents a plan for uniform travel allowances, that
the Board had agreed that before putting the plan into effect the
Presidents would have an opportunity to discuss it with the Board,
that it was not important whether the plan was submitted before the
next conference, and that he felt the matter should not be submitted
to the personnel officers of the Federal Reserve Banks but that a
plan should be adopted by the Board and submitted directly to the
Presidents with the understanding it would not be made effective
until after it had been discussed at a joint conference. He added that any plan proposed by the Board should be comparable generally to the travel regulations effective for officers and employees of the Board, but that it should contain provisions which would enable the Presidents of the Federal Reserve Banks to secure reimbursement for actual expenditures when they found it necessary or desirable to give special luncheons for private bankers at conferences or conventions, or when they incurred special expenses in attending conferences in Washington or elsewhere.

The meeting thereupon recessed and reconvened at 2:15 p.m. with the same attendance as at the close of the morning session, except that Mr. Daniels, Technical Assistant in the Division of Bank Operations, was also present.

Mr. Evans stated that with respect to cafeteria costs it had been suggested at the meeting of the Board and the Presidents in June that by the end of 1947 the Banks should reduce to 25 per cent the percentage of cafeteria costs being absorbed by the Federal Reserve Banks, that he questioned whether this was an appropriate time to reduce their absorption to that figure, and that he would suggest that, effective July 1, 1948, the Board set 33 1/3 per cent as the maximum proportion of cafeteria costs that any Federal Reserve Bank could absorb. He observed that this percentage had been in effect
for 20 years, from 1926 to 1946, in which year it had been increased to 50 per cent.

Chairman Eccles said that whether the figure was 25 per cent or 33 1/3 per cent, cafeteria costs absorbed by the Banks represented compensation to employees, that, in keeping with the establishment of the salary classification plan and general responsibility of the Board for approving compensation of employees, the proportion of cafeteria costs which might be absorbed by the Banks should be set at a uniform level by the Board, that he could not see a justification for wide variations between banks in the proportion of costs paid by the banks, and that the Board should make certain that the cafeterias were operated on a business-like and efficient basis.

After consideration of various means of determining the amount to be covered by prices to employees and the amount to be absorbed by the Federal Reserve Banks, it was suggested that no new plan should be decided upon until a careful study of cafeteria operations and cost allocations had been made by competent experts, that the purpose and justification for having cafeterias operated by the Federal Reserve Banks should be established, and that, after that information was available, the Board should consider what proportion of the costs should be borne by the Reserve Banks.

Mr. Vardaman stated that a survey of cafeteria costs should
include allowances for space, heat, and lighting which are not now allocated by the Federal Reserve Banks to cafeteria costs in their functional expense reports.

Mr. Clayton remarked that this entire matter, like the question of travel expenses of officers and employees of Federal Reserve Banks, came under the assignment of the member of the Board who was responsible for Reserve Bank expenditures, and he suggested that both matters be referred to Mr. Vardaman for study and report back to the Board.

Upon motion by Mr. Clayton, it was agreed unanimously that the questions of (a) travel expenses of officers and employees of Federal Reserve Banks, and (b) absorption of cafeteria costs by Federal Reserve Banks be referred to Mr. Vardaman for study and report to the Board, it being understood that, if he felt it desirable to do so, Mr. Vardaman would consult persons competent in the field of hotel and restaurant operation for suggestions as to the procedure to be followed in determining whether the cafeterias of the Federal Reserve Banks were operated efficiently.

Mr. Daniels left the meeting at this point.

With reference to the third point brought up by Mr. Evans, annual, sick, and other leave, Mr. Nelson said that it had been agreed at the meeting of the Board and the Presidents on June 6 that the matter would be considered by the personnel officers of
the Federal Reserve Banks at their conference in October, at which time they would attempt to draft a plan which would bring about adequate uniformity among the Banks, and that he had prepared a draft of a plan which he would like to submit informally to the personnel officers for consideration prior to their conference. He then described the plan, which would provide (1) that maximum vacation leave for employees of Federal Reserve Banks would be four weeks in a calendar year and for officers, one calendar month in each year, and (2) that sick leave would not exceed 15 working days for each year of service, with a limit of 90 days, except that in meritorious cases an additional 90 days might be granted officers and employees having two years or more of service upon approval of the board of directors or executive committee of the Bank.

In the discussion that followed it was generally agreed that the Board should set maximum schedules for vacation and sick leave on the grounds that such leave represented a part of compensation, that the maximum vacation leave allowed should be uniform for officers and employees, that it should be 26 working days per year, that any full working day or more (including Saturday where that was a regular working day) taken off by officers or employees for personal reasons other than illness should be charged to the 26 working days allowed, and that the records of the Banks should be in such form as would
permit checking by the Board's examiners to determine whether an officer or employee was absent from the Bank for a period of a full day or more.

There was a discussion of the schedule proposed by Mr. Nelson for sick leave, and he explained that the proposal was slightly more liberal than the standard schedule in effect at the Board when allowance was made for the suggestion that the Bank have authority to grant employees of two years or longer service additional leave up to as much as 90 days in meritorious cases, but that this proposal was made on the assumption that there would be some cases which could be taken care of at the Reserve Banks under such authority without having to come to the Board for specific approval. Mr. Leonard commented that, according to information appearing in examination reports, cases of extended sick leave granted in the past by the Federal Reserve Banks had been rare.

Upon motion by Mr. Evans, it was agreed unanimously that Mr. Nelson should transmit informally to the personnel officers of the Federal Reserve Banks for consideration and discussion at their meeting in the fall of 1947 a proposal for vacation and sick leave along the lines of the schedules discussed.

At this point Mr. Bethea left the meeting.
Mr. Clayton referred to a letter from the Federal Reserve Bank of San Francisco dated August 1, 1947, sent in response to an inquiry from the Board with respect to making membership in the Federal Reserve System compulsory for national banks in Hawaii and Alaska if those territories become States, and expressed the opinion that nothing need be done on the subject at the present time.

Mr. Evans stated that if Hawaii and Alaska were admitted as States the banks in their jurisdiction should be subject to exactly the same statutory conditions with respect to Federal Reserve membership as banks in the continental United States, and he suggested that steps be taken to include such a requirement in the pending legislation which would provide for admission of those territories to Statehood. Mr. Vest suggested that if this were done it would be desirable also to have the law indicate to what Federal Reserve district or districts the new States would belong.

Mr. Clayton said that admission of Hawaii or Alaska to Statehood would not alter the reasons why national or other banks in those areas should be members of the Federal Reserve System, that there were some practical considerations growing out of the distances involved which had made membership less attractive to banks thus located than to those in continental United States, and that it would seem desirable, before recommending legislation on the matter, to
have a memorandum prepared by the staff setting forth the reasons for and against a requirement for making membership compulsory for national banks not located in the continental United States.

Upon motion by Mr. Clayton, it was agreed unanimously that a memorandum on the subject and a draft of letter to the appropriate Congressional committee should be prepared by the staff for the consideration of the Board.

At this point Messrs. Vest, Leonard, Nelson, and Van Fossen withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 25, 1947, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 28, 29, 30, and 31, and August 1, 4, and 5, 1947, were approved and the actions recorded therein were ratified unanimously.

Approved:

[Signature]

Chairman.

[Signature]

Assistant Secretary.