

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 23, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.
 Mr. Draper
 Mr. Evans
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board
 Mr. Smead, Director of the Division of Bank Operations
 Mr. Parry, Director of the Division of Security Loans
 Mr. Bethea, Director of the Division of Administrative Services
 Mr. Thomas, Director of the Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Leonard, Director of the Division of Examinations
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Brown, Assistant Director of the Division of Research and Statistics
 Mr. Allen, Personnel Technician, Division of Personnel Administration

Mr. Carpenter referred to a letter dated March 18, 1948, from Mr. Davis, Chairman of the Presidents' Conference, in which he outlined a tentative program for the meetings of the Board of Trustees and committees of the Retirement System, the Presidents' Conference and its committees, the Federal Open Market Committee and its executive committee, and the joint meeting of the Presidents and the Board, during the week beginning May 17, 1948. The

3/23/48

-2-

program provided that the meetings of the Federal Open Market Committee would be held on the afternoon of Thursday, May 20, and the morning of Friday, May 21.

It was the view of the members of the Board that if the meeting of the Presidents' Conference did not adjourn until noon on Thursday the memorandum of matters to be discussed at the joint meeting with the Board would not be received in time for adequate consideration by the Board. In these circumstances, it was suggested that Mr. Davis be informed that any program would be satisfactory to the Board which provided that the memorandum of topics submitted by the Presidents for the Board's consideration prior to the joint meeting of the Board with the Presidents would be received by the Board at a time which would give the Board part of a day (in addition to the time set aside for the meetings of the Federal Open Market Committee) to consider the topics prior to the joint meeting.

This suggestion was approved and it was agreed unanimously that the Secretary should call Mr. Davis on the telephone and inform him of the Board's views.

Reference was made to a memorandum prepared in the Division of Personnel Administration under date of March 15, 1948, in consultation with members of the staff reading in part as follows:

3/23/48

-3-

"Legislation has recently been enacted which materially changes the Civil Service Retirement Act. Generally, this legislation is effective April 1, 1948, and its principal purposes are:

- (1) To provide new methods for computing retirement allowances.
- (2) To provide benefits for survivors of certain employees dying in service.
- (3) To give present annuitants an increased allowance or in lieu thereof certain benefits for their spouses.
- (4) To permit refunds upon separation before 20 years of service.
- (5) To increase the rate of employees' contributions to the retirement fund.
- (6) To simplify administration of the Retirement Act.

"This legislation, Public Law 426, copy attached, applies automatically to:

- (1) The members of the Board.
- (2) Approximately 113 Board employees who are under the Civil Service Retirement Act.
- (3) Approximately 358 Board employees who are participants in the Board of Governors Retirement Plan (with possible exceptions which are noted below).

"The purpose of establishing the Board Plan of the Federal Reserve Retirement System as given in paragraph (1), Section 10 of the Rules and Regulations, is to accord financial benefits to employees of the Board of Governors comparable to those granted to employees who are subject to the Civil Service Retirement Act. The resolution of the Board of Governors establishing the Board Plan states in paragraph (3) that a participant of the Board Plan shall be entitled to receive benefits equivalent to those to which he would be entitled under the provisions of the Civil Service Retirement Act as amended from time to time; except as otherwise provided by the terms of the Board Plan or by Section 10 of the Rules and Regulations of the Retirement System. Changes in the Civil Service Retirement Act, therefore, except in those instances where the Board has specifically deviated from the Act, automatically become a part of the Board Plan unless the Board of

3/23/48

-4-

"Governors takes formal action to the contrary.

"RECOMMENDATION:

"It is recommended that the Board do not take action to prevent the incorporation in the Board Plan of the applicable changes brought about by the recent amendment to the Civil Service Retirement Act.

"It is also recommended that the Board alter its withdrawal benefit (which at present provides for the return of funds upon forfeiture of one-half of the interest regardless of the length of service) to conform with Civil Service for all participants except to continue to permit withdrawal after 20 years of civilian service by participants as of March 31, 1948, on the same basis as at present, i. e., forfeiture of one-half of the interest to the Retirement System.

"If the Board wishes to make this change, specific approval is necessary because it is a revision in the Board Plan and a continued deviation from Civil Service. The amendment to the Civil Service Retirement Act permitting refunds up to 20 years of civilian service does not automatically become a part of the Board Plan because the Board specifically deviated from Civil Service in the payment of refunds when the Board Plan was established. A resolution, similar to the one approved by the Board in establishing the Board Plan, which incorporates the above recommendation, is attached, and it is recommended that it be adopted.

"It is further recommended that the Division of Administrative Services be authorized to pay to the Retirement System of the Federal Reserve Banks whatever amount is determined by the Actuary as being necessary to meet the added costs of the proposed revisions in the Board Plan. When the cost information is received from the Actuary, it will be presented to the Board before payment is made.

"A letter to this effect addressed to Mr. Rounds, Chairman of the Retirement Committee, and a copy of the memorandum to be distributed to participants of the Board Plan are attached."

Mr. Nelson stated that one of the changes in the plan would liberalize benefits paid to persons who retired prior to April 1,

3/23/48

-5-

1948, under the Board Plan but that it would not affect the position of former Board employees who had retired under the Bank Retirement Plan. He felt no action should be taken to extend the added benefits to these participants in the Bank Plan since such action would raise a question as to the extension of similar benefits to Federal Reserve Bank employees who had retired prior to April 1, 1948, under the Bank Plan.

In this connection it was stated that some thought was being given by the Reserve Banks to suggested modifications in the Bank Plan which would bring it closer to the provisions of the Board Plan, and that if such changes were adopted consideration could be given at that time to the possibility of extending the benefits referred to in the preceding paragraph to persons already retired under the Bank Plan.

Following a discussion of the changes in the Board Plan outlined in Mr. Nelson's memorandum, upon motion by Mr. Draper, unanimous approval was given to the recommendations set forth above.

The following resolution was then adopted by unanimous vote:

"RESOLUTION OF THE BOARD OF GOVERNORS AMENDING THE RESOLUTION OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM ESTABLISHING A NEW RETIREMENT PLAN FOR ITS EMPLOYEES ADOPTED NOVEMBER 2, 1943."

"RESOLVED: That the first sentence of paragraph (5) of the Resolution of the Board of Governors of the Federal

3/23/48

-6-

"Reserve System, establishing a new retirement plan for its employees, adopted November 2, 1943, be amended by changing the period at the end thereof to a colon and adding the following proviso: 'Provided, that after March 31, 1948, this sentence shall apply only to (a) persons who were participants on such date and whose employment is thereafter discontinued after 20 years or more of creditable civilian service and (b) participants whose employment was discontinued on or before such date; and the rights of all other participants with respect to withdrawal of their contributions shall be determined without reference to this sentence.'"

Unanimous approval also was given to a notice to all participants in the Board Plan which read as follows:

"Extensive changes have been made in the Civil Service Retirement Act by a recent Act of Congress. The applicable changes have been incorporated in the Board of Governors Plan and for your information the principal changes in the Board Plan are set forth below. It should be understood that this statement is intended as a non-technical explanation for your general information but it is not an official interpretation either of the provisions of the Civil Service Retirement Act or of the Board Plan.

"Age and Optional Retirement. The retirement age for Board Plan participants will continue to be 65 years regardless of service and a participant, as heretofore, may retire at age 60 after 30 years of service or at age 62 after 15 years of service. A participant who has served 30 years or more may still retire upon becoming 55 years of age but his allowance will be reduced by $\frac{1}{4}$ of 1 percent for each full month he is under age 60. The following table compares the reduction under the old and new rates:

<u>Age at Retirement</u>	<u>Previous Reduction (Approximate Per cent)</u>	<u>Present Reduction (Per cent)</u>
55	33	15
56	28	12
57	22	9
58	15	6
59	8	3

3/23/48

-7-

"Computation of Allowance. The several former methods of computing allowances are eliminated and two new formulas substituted. The retirement allowance will be equal to 1 1/2 per cent of the highest average salary for any 5 consecutive years or 1 per cent of the average salary plus \$25, whichever is greater, multiplied by the number of years of service. The allowance, exclusive of annuity purchased by voluntary contributions, in no case can exceed 80 per cent of the highest average salary.

"The 1 per cent plus \$25 formula gives the higher benefit when the average salary is below \$5,000; when the average salary is above \$5,000, the 1 1/2 per cent formula gives the larger allowance.

"Separation Allowance. A participant who is involuntarily separated, not for cause, after 25 years of service will be entitled to an immediate retirement allowance reduced by 1/4 of 1 per cent for each full month he is under age 60.

"Any separation after 5 years of civilian service will entitle a participant to a retirement allowance beginning at age 62. In lieu of the allowance, the participant may receive a refund of his contributions with full interest if he has less than 20 years of civilian service. After 20 years of civilian service, a participant who was an active participant on March 31, 1948 may receive a refund but one-half of the interest credited to his account will be retained by the Retirement System.

"Deposit of Contributions Covering Prior Service. Unless a participant deposits his contributions with interest to cover a period of service for which no retirement deductions were withheld, the retirement allowance otherwise receivable will be reduced by an amount equal to 10 per cent of such contributions and interest. The participant may, however, waive entirely a period of service not covered by contributions.

"A participant who has received a refund of contributions previously withheld must redeposit such refund with interest before credit will be allowed for the service covered by the refund.

"The status of participants who became participants by election is not affected by the preceding two paragraphs.

"Joint and Survivorship. A participant, who is a husband, retiring (1) optionally, (2) for age, (3) on

3/23/48

-8-

"account of disability, or (4) involuntarily not for cause, may elect to receive 90 per cent of his basic allowance, such allowance to be further reduced by $\frac{3}{4}$ of 1 per cent for each full year the wife is under 60 at the time of retirement (but not less than 75 per cent) with the understanding that at his death, or upon the widow's attainment of age 50, whichever is later, there will be paid to the widow $\frac{1}{2}$ of the full allowance. The allowance payable to the widow will terminate upon her death or remarriage.

"An unmarried participant retiring (1) optionally, (2) for age, or (3) involuntarily, may elect a reduced allowance with a survivor benefit upon successfully passing a physical examination. The survivor who will receive 50 per cent of the reduced allowance must have an insurable interest in the participant. The reduction in the basic allowance depends on the difference between the ages of the annuitant and the designated survivor.

Age of Survivor In Relation to Annuitant	Percentage of Basic Allowances Due Annuitant
Older, same age, or less than 5 years younger	90
5 - 9 years younger	85
10 - 14 years younger	80
15 - 19 years younger	75
20 - 24 years younger	70
25 - or more years younger	60

"A married female participant has no option upon retirement.

"Widows' and Children's Benefits. Upon death in service of a married male participant who has completed 5 years of civilian service, his widow will receive an allowance beginning at age 50, or immediately if the widow is already age 50, equal to $\frac{1}{2}$ the participant's allowance based on his salary and years of service. This benefit will be paid to the widow until she dies or remarries.

"If the married male participant is survived by a child or children, the widow's benefit begins at once and she will receive on behalf of each child $\frac{1}{4}$ of the husband's allowance of \$360 whichever is lesser. However, for three or more children the maximum which may be received on their behalf is \$900.

3/23/48

-9-

"If there is no surviving widow but a child or children, each child receives $1/2$ of the basic benefit or \$480 whichever is lesser. The maximum amount which may be received on behalf of three or more children is \$1,200. Similar benefits are provided to the child of a female employee who dies in service and leaves no surviving husband.

"If an annuitant dies and is survived by a widow and children (or a child), the widow if under age 50 will receive $1/2$ of the annuitant's allowance until she dies, remarries, or attains age 50. In addition, each surviving child will receive an amount equal to $1/2$ the widow's allowance or \$360 whichever is lesser; but not to exceed \$900 for three or more children. If there are surviving children, but no widow, each child will be entitled to the allowance due the widow had she survived or \$480 whichever is lesser but not to exceed \$1,200 for three or more children.

"A widow under this section must have been married to the participant at least two years immediately preceding his death or be the mother of issue by such marriage.

"A child (including a dependent stepchild or an adopted child) must be unmarried, under the age of 18, or incapable of self-support by reason of physical or mental disability.

"Interest. Effective January 1, 1948, interest added to the participants' accounts will be at the rate of 3 per cent compounded annually instead of 4 per cent as heretofore.

"Interest will not be paid on a refund covering service of less than one year and fractional parts of a month in the total will be disregarded. In the computation of a deposit no interest will be charged for periods of separation from service.

"Tontine. The one dollar a month will no longer be withheld from participants' contributions at the time of retirement.

"Creditable Service. Five years of civilian service will be required for title to an allowance rather than the 5 years of service (including military service) previously required.

"Contribution Rate. Effective July 11, 1948, the contribution rate of participants will be 6 per cent of basic salary rather than 5 per cent.

3/23/48

-10-

"Depletion of Contributions. The accumulated contributions, except voluntary contributions, to the credit of an employee at retirement will be reduced by the entire amount of the retirement allowance received rather than by the annuity portion only, as heretofore. The employee's account will, therefore, generally be exhausted in two or three years.

"Voluntary Contributions. Each \$100 credited to a participant's voluntary contribution account (contributions and interest) at retirement will provide \$7.00 of life annuity (cash refund basis) increased by 20 cents for each full year a participant is over age 55. This applies to voluntary contributions previously made as well as to future voluntary contributions.

<u>Age</u>	<u>Additional Annuity Per \$100</u>
55	\$7.00
56	7.20
57	7.40
58	7.60
59	7.80
60	8.00
61	8.20
62	8.40
63	8.60
64	8.80
65	9.00

"Disability. Retirement for disability will, as at present, be computed in the same manner as other retirements with no reduction for age.

"Death Benefit Insurance. The insurance elected by some participants when they came under the Board Plan (for which 60 cents per \$1,000 of insurance is paid monthly) continues as heretofore.

"Benefits to Those Already Retired. The allowance of each retired Board Plan employee will be increased by 25 per cent or \$300, whichever is the lesser. In lieu of this increased allowance, the annuitant may elect to continue to receive his present allowance and name the spouse as a survivor beneficiary to receive 1/2 of the basic allowance, not to exceed \$600, upon the death of the annuitant.

"The benefits of participants heretofore separated (after 5 years of service) who have title to future benefits will not be changed.

3/23/48

-11-

"Effective Date. The survivorship provisions will be effective immediately; the increase in the contribution rate will be effective July 11, 1948; the change in interest will be effective January 1, 1948; all other provisions will be effective April 1, 1948.

"If you have any questions, they should be discussed with the Personnel Division."

The following letter to Mr. Rounds, Chairman of the Retirement Committee of the Retirement System of the Federal Reserve Banks, was also approved unanimously:

"Enclosed is a copy of Public Law 426, February 28, 1948, amending the Civil Service Retirement Act. The Board of Governors will take no action to prevent the incorporation into the Board Retirement Plan of the applicable changes resulting from the amendatory act.

"The Board has adopted a resolution amending its resolution of November 2, 1943, which established the Board Plan, to modify the provisions of paragraph (5) relating to the withdrawal of participants' contributions. A copy of the resolution is enclosed herewith.

"The Board has also authorized the payment of whatever amount is necessary to meet the added costs of the revision in the Board Plan. It is understood that advice from the actuary as to the amount of such costs will be transmitted to the Board.

"It is further understood that the Retirement Office, in cooperation with certain members of the Board's staff, will revise the working rules under which the Board Plan is administered and a copy will be furnished the Board."

Mr. Allen left the meeting at this point.

Reference was made to drafts of letters to the Federal Reserve Banks of Philadelphia and Cleveland prepared pursuant to the action at the meeting of the Board on March 9, 1948, with respect to the employment by these Banks of outside counsel. Mr. Evans stated that the Personnel Committee had considered the drafts of letters and felt

3/23/48

-12-

that it was not necessary to send them since the Banks were on notice that the Board would not expect to approve regular compensation for outside counsel after April 30, 1948.

Mr. Nelson stated that no information had been received from the Philadelphia Bank as to how it proposed to meet the situation but that Mr. Gidney, President of the Federal Reserve Bank of Cleveland, when he was in Washington last month, said that he and Chairman Brainard desired to discuss the matter with members of the Board with a view to reaching a compromise arrangement whereby the firm now serving as counsel for the Bank would continue to be retained for handling special matters and a resident counsel would be employed by the Bank to handle legal matters of a routine character.

Mr. Szymczak stated that he felt some notice should be given to the Banks which would make it clear that the Board did not expect to approve the payment of retainer fees to outside counsel after the end of next month. He also said that the Board had taken this position with respect to outside counsel as a result of experience over a period of years which clearly indicated that resident counsel at Federal Reserve Banks were more satisfactory and desirable in some important respects, that it was well known that both the Philadelphia and Cleveland Banks preferred to retain outside counsel, that if the Board now modified

3/23/48

-13-

its position such action might reopen the question of outside counsel at a number of other Federal Reserve Banks, and that under the circumstances he would suggest that letters be sent.

Following a discussion of whether the matter might be handled more effectively by letter, telephone, or in a conference, the letter to the Federal Reserve Bank of Cleveland was read and, upon motion by Mr. Draper, was approved unanimously as follows:

"Reference is made to the Board's letter of April 29, 1947, approving official salaries and the retainer fee for Counsel at the Federal Reserve Bank of Cleveland for the period May 1, 1947 through April 30, 1948.

"In that letter the Board reiterated its position that as a matter of general policy the legal work of each Reserve Bank should be conducted under the direction of a General Counsel who devotes his full time to the Reserve Bank and represents only the Bank. It was expected that your Bank would make appropriate arrangements to have a full time Counsel and the Board stated that it did not expect to approve regular compensation for outside counsel after April 30, 1948.

"Although this matter has been the subject of oral discussion when you were in Washington, we understand that arrangements have not been completed for a full time Counsel at your Bank, and the Board has requested that this matter be called to your attention, since the present arrangement for outside counsel will expire in a short time."

Mr. Clayton suggested that the last paragraph of the letter to the Federal Reserve Bank of Philadelphia be changed to emphasize that the present arrangement would expire at the end of next month.

Thereupon, upon motion by Mr. Clayton, the letter was approved unanimously in the following amended form:

3/23/48

-14-

"Reference is made to the Board's letter of April 29, 1947, approving official salaries and the retainer fee for Counsel at the Federal Reserve Bank of Philadelphia for the period May 1, 1947 through April 30, 1948.

"In that letter the Board reiterated its position that as a matter of general policy the legal work of each Reserve Bank should be conducted under the direction of a General Counsel who devotes his full time to the Reserve Bank and represents only the Bank. It was expected that your Bank would make appropriate arrangements to have a full time Counsel and the Board stated that it did not expect to approve regular compensation for outside counsel after April 30, 1948.

"Inasmuch as we have not been advised of the arrangements made for a full time Counsel at your Bank, the Board has requested that this matter be called to your attention, since the present arrangement for outside counsel will expire at the end of next month."

Reference was then made to a memorandum from the Personnel Committee prepared under date of March 17, 1948, and reading as follows:

"Carl E. Parry, Director of the Division of Security Loans, will reach age 65 on April 1, 1948, and has made application for retirement on that date.

"It is recommended:

(1) That the Division of Security Loans be discontinued as of March 31, 1948. (The volume of work remaining is too small to warrant a division to handle it. Furthermore, a part of the research work in this field is performed by the Division of Research and Statistics.)

"The functions now performed in the Division will be performed by the Legal Division and the Division of Research and Statistics, as follows:

(a) The administration of Regulations T and U, including legal aspects and questions of compliance and enforcement, will be performed by the Legal Division.

(b) The research and statistical work will become a regular part of the work of the Division of Research and Statistics.

3/23/48

-15-

"(c) The work now being performed by the Division of Examinations with respect to Regulation U will be continued in that Division without change.

"By this arrangement it is believed that efficiency will be increased and complete service will be available to Governor Draper, who has the assignment covering the extension and maintenance of credit by brokers, dealers, banks and others for purchasing or carrying securities.

(2) That Francis R. Pawley, Special Assistant in the Division of Security Loans, be transferred to the position of Economist in the Business Finance and Capital Markets Section of the Division of Research and Statistics, and that his salary be increased from \$5,905.20 to \$6,144.60 per annum, effective April 1, 1948. Mr. Pawley was employed by the Board as a Special Assistant in the Division of Security Loans on January 2, 1946, and he has had no administrative increase in his salary since his employment. His present classification is Group V, with a salary range of \$5,905.20 to \$6,862.80.

(3) That Miss Alice Swindlehurst, clerk in the Division of Security Loans, be transferred to the Business Finance and Capital Markets Section of the Division of Research and Statistics, effective April 1, 1948, with no change in her present salary of \$3,271.80 per annum.

"It is contemplated that the two other employees in the Division of Security Loans, Catherine L. Schmidt, Secretary to Mr. Parry, and Otto Branic, messenger, will be assigned elsewhere as soon as suitable openings can be found."

Mr. Evans stated that pursuant to the action at the meeting of the Board on May 13, 1947, the Personnel Committee had studied the matter of changes to be made in the Division of Security Loans at the time Mr. Parry retired, that it had made a recommendation sometime ago as to changes which it felt would be desirable, but that the recommendations were not satisfactory to Mr. Draper, whose assignments included initial consideration of

3/23/48

-16-

matters relating to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and that the recommendations contained in the foregoing memorandum were the outgrowth of further discussions with Mr. Draper and Mr. Parry. Mr. Evans also stated that he had discussed the matter with Chairman Eccles, who had informed him that he would be satisfied with an arrangement such as that originally proposed by the Personnel Committee but that he would also agree with an arrangement such as that contained in the memorandum so long as the member of the Board who had margin requirements as one of his assignments could obtain the information he needed.

Mr. Evans also said that in their study of the matter, the Personnel Committee had been informed by Mr. Parry that, with the termination of Regulation W, Consumer Credit, the work assigned to the Division of Security Loans was not sufficient to justify continuance of a separate division, and that the Committee had concluded the work should be divided in accordance with the arrangement proposed in the memorandum. Under the proposed arrangement, Mr. Evans said, the administrative responsibility connected with Regulations T and U would be assigned to the Legal Division,

3/23/48

-17-

the research and statistical work would become a regular part of the Division of Research and Statistics, and Mr. Pawley and Miss Swindlehurst would be transferred to the Division of Research and Statistics where they would perform whatever work was assigned to them, including work other than that connected with margin requirements.

Mr. Szymczak stated that the responsibility for administrative or operating functions had not previously been given to the Legal Division, that in his opinion such an arrangement was not desirable, and that he thought there should be a clear understanding as to the responsibilities assigned to the Legal and Research Divisions.

Mr. Evans stated that, as he interpreted the recommendations of the Personnel Committee, Mr. Draper would confer with anyone on the Board's staff that he might choose with respect to policy questions, that the research work in connection with margin requirements would be done in the Division of Research and Statistics which would watch economic developments, and that Mr. Draper could ask advice of that Division in connection with any change of policy that should be made and that after the policy had been determined by the Board the Legal Division would draft the necessary changes in the regulation. In response to

3/23/48

-18-

inquiries from Mr. Szymczak, Mr. Evans stated that on questions of policy Mr. Draper would discuss the matter with Mr. Vest and they would determine how the matter should be handled and Mr. Draper stated that he would expect to receive from the Division of Research and Statistics information with respect to economic changes and questions relating to the situation in the stock market. He said that matters arising under Regulations T and U would go to the Legal Division and would be threshed out in conference in which he and representatives of the Legal and Research Divisions would participate.

Mr. Clayton stated that as he understood the recommendations of the Personnel Committee they contemplated that the Legal Division would have the responsibility to receive statistical information and reports from the Division of Research and Statistics affecting questions relating to security loans and that whenever a question arose indicating the need for action on a policy matter the Legal Division would confer with the Division of Research and Statistics or with Mr. Draper who would call in the Division of Research and Statistics and determine what if any action should be taken.

Mr. Vest stated that if the administrative work in connection with Regulations T and U were transferred to his Division he would assign the function to Messrs. Solomon and Chase, but that

3/23/48

-19-

experience might demonstrate the need for one or two additional people who would be qualified to handle important questions that might arise and that if that should be the case he would like to feel free to make a recommendation to the Board that the additional people be employed. He also said that he was uncertain as to just what responsibility the Legal Division was expected to assume and that he hoped that question would be clarified.

In the discussion it appeared that there was substantial difference of opinion as to what the responsibilities of the Legal and Research Divisions would be if the recommendations of the Personnel Committee were adopted, and in response to an inquiry from Mr. Draper for his comments Mr. Parry stated that, as he understood the recommendations, they contemplated that responsibility for following the movements of the market and prices of securities, changes in stock market credit, and related matters would be largely in the Research and Statistics Division and not in the Legal Division but that there were occasional questions which did not have to do with margin requirements, but rather with the supporting rules and with "keeping the regulations in order", and that questions of that kind would be referred automatically to the Legal Division. He went on to say that in so far as the staff would be expected to advise with respect to

3/23/48

-20-

whether action should be taken to change margin requirements he would look to the Division of Research and Statistics for that advice.

In a further discussion, Mr. Draper stated that if the matter were left with him for decision he would handle it in the manner Mr. Parry had outlined.

Mr. Szymczak stated that he felt it was important that the activities of the Legal Division be confined to legal matters and that it be not given administrative or operating responsibilities.

Mr. Evans stated that he thought it was equally important that no administrative or operating functions be given to the Division of Research and Statistics.

There was a discussion of the extent to which responsibility rested with the staff for initiating consideration of policy questions, and the suggestion was made that to the extent the Board held the staff responsible to initiate consideration of policy questions arising under Regulations T and U, that responsibility had been discharged by Mr. Parry, and that the question before the Board was one of where that responsibility should be placed after Mr. Parry retired and the Division of Security Loans was discontinued.

Mr. Draper stated that he would look to Mr. Brown in the

3/23/48

-21-

Division of Research and Statistics for the discharge of that responsibility.

In a further discussion, Mr. Evans suggested that paragraph 1(a) of the recommendations of the Personnel Committee be changed to read as follows:

"(a) The administration of legal aspects and questions of compliance and enforcement under Regulations T and U will continue to be performed by the Legal Division."

Mr. Evans' suggestion was discussed and it was agreed unanimously that if the suggestion were adopted it would mean that the Legal Division would continue to have responsibility only for legal matters arising under Regulations T and U and that the research work now performed by the Division of Security Loans would be transferred to the Division of Research and Statistics.

Thereupon, upon motion by Mr. Evans, the recommendations of the Personnel Committee with the change suggested by Mr. Evans were approved unanimously to become effective March 31, 1948.

Mr. Vest stated that before this meeting, at the request of Mr. Draper, a draft of letter had been prepared to Senator Tobey, Chairman of the Senate Banking and Currency Committee, with respect to a statement in a report submitted by the Committee with respect to S. 2287 to amend the Reconstruction Finance Corporation Act which read as follows:

3/23/48

-22-

"Federal Reserve lending authority

"By Section 13b of the Federal Reserve Act, the Federal Reserve banks are authorized to make direct loans and to guarantee loans to business enterprises under certain circumstances. Senate bill 408, which has been reported out favorably by this committee, would in effect expand the powers of the Federal Reserve banks to make these loans. This authority is no different from authority which RFC possesses under the RFC Act. The committee believes that there should not be two separate Government agencies engaged in performing identical lending functions. It would be inadvisable to make the Federal Reserve banks the sole agency in that field because this would involve granting to those banks far broader powers than are contained in the present section 13b or in the provisions of S. 408 in order to provide the scope of financial aid which can be afforded by RFC under its various lending powers. The committee has concluded, therefore, that the lending powers granted to the Federal Reserve banks by Section 13b of the Federal Reserve Act should be removed entirely."

Mr. Vest also said that since the draft had been prepared a news item had indicated that the statement might be interpreted as not being adverse to the enactment of S. 408, a bill to repeal section 13b of the Federal Reserve Act, to amend section 13 of the said Act, and for other purposes. He added that Mr. Cherry of the Legal Division had discussed the matter with Mr. L'Heureux, Chief Counsel of the Senate Banking and Currency Committee, and that, while Mr. L'Heureux had been interrupted and had not been able to give Mr. Cherry all of the information relating to the statement contained in the Committee report, a revised draft of letter to Mr. Tobey had been prepared for consideration by the Board.

The draft of letter was read and discussed and it was voted unanimously that unless the additional information obtained

3/23/48

-23-

by Mr. Cherry from Mr. L'Heureux changed the situation as the Board now understood it the letter should be sent to Senator Tobey in the following form:

"The Board of Governors has noted that a report submitted by the Senate Banking and Currency Committee on March 10, 1948, with respect to the bill, S. 2287, to amend the Reconstruction Finance Corporation Act, contains on page 17 a statement to the effect that the authority of the Federal Reserve Banks to make direct loans and to guarantee loans to business enterprises, which would be 'expanded' by the bill S. 408 previously reported out favorably by the Committee, is no different from authority which the RFC possesses under the Reconstruction Finance Corporation Act; that the Committee believes that two separate Government agencies should not be engaged in performing 'identical lending functions'; and that the Committee has concluded 'that the lending powers granted to the Federal Reserve Banks by section 13b of the Federal Reserve Act should be removed entirely.'

"This statement indicates that the authority now possessed by the Federal Reserve Banks under section 13b of the Federal Reserve Act to make loans to business enterprises would be 'expanded' by the bill S. 408. However, S. 408 would take away from the Federal Reserve Banks their existing authority to make direct loans to businesses. Consequently, not only would there be no competition between the Reserve Banks and commercial banks in making loans to business enterprises but there would be no duplication of function in making such business loans between the Federal Reserve Banks and the RFC.

"The bill S. 408 would authorize the Federal Reserve Banks to make partial guarantees of business loans on a more effective basis than at present; but this authority of the Reserve Banks to make such guarantees would differ in certain respects from the authority of the RFC to guarantee business loans through agreements for deferred participations in such loans.

"As it has stated on other occasions, the Board feels that any assistance provided under Governmental

3/23/48

-24-

"authority for the financing of business enterprises through commercial banks should be restricted to partial guarantees of loans and that such assistance should be extended through the Federal Reserve Banks. In this connection, you will recall that your Committee, in favorably reporting the bill S. 408 on April 28, 1947, expressed the view that authority for partial guarantees of loans made by banks 'should be provided in the law, and also that it should properly be vested in the Federal Reserve System.' As you know, the Federal Reserve Banks are permanent credit institutions with experienced personnel thoroughly familiar with the needs and problems of both financing institutions and businesses throughout the country.

"In the judgment of the Board, it is important that the Federal Reserve Banks have authority to guarantee loans to business enterprises in order to provide a 'stand-by' arrangement which will be promptly available whenever the need for such financing may occur. The Board wishes also to point out again that in making partial guarantees of business loans under S. 408, the Federal Reserve Banks would utilize their own funds. As stated in your Committee's report of April 28, 1947, with respect to that bill, 'no Government appropriations or drain on the Federal budget would be involved in operations under the bill.'"

Secretary's Note: The additional information developed by Mr. Cherry did not change the situation and the above letter was sent under date of March 24, 1948.

A memorandum prepared under date of March 22, 1948, in the Division of Research and Statistics was then presented in which it was stated that the House Appropriations Committee had passed a bill which would reduce by two-thirds the amount which the Census Bureau would receive for collecting business statistics in the fiscal year 1949 and that the reduction would result in a serious loss of valuable information to all who must appraise the current

3/23/48

-25-

situation in order to make policy decisions. The memorandum also stated that in 1943 Chairman Eccles addressed a letter in somewhat similar circumstances to the Director of the Census urging that the collection of data not be interrupted, and that the Census Bureau, while not actively soliciting help, felt that a letter along the lines of a draft attached to the memorandum would be of assistance in bringing the matter to the attention of the Senate Committee.

The draft of letter was read and approved unanimously in the following form:

"We note from Report No. 1433 of the House Committee on Appropriations that H. R. 5607 provides for a reduction in the appropriation for the Census Bureau to collect business statistics in the fiscal year 1949. The report states that the statistics should be reduced to a quarterly basis and the number of classifications of trade reduced.

"The data in these reports serve as a basis for the preparation of general economic analyses in governmental, business, and educational institutions. They are particularly useful in providing current information concerning the level of business activity, information that is vital for the making of policy decisions by this Board. It is especially important that the monthly continuity of these data remain uninterrupted in order that we may interpret adequately the swiftly changing movements so characteristic of trade today. If the data are put on a quarterly basis, not only will an appraisal be possible less frequently but the mechanics of the operation will delay publication of the figures for some time after the end of each quarter.

"We wish to urge that some means be found to continue the collection and publication of data on the present basis."

Mr. Clayton stated that pursuant to the action of the Board at the meeting on March 19, 1948, he telephoned Mr. Charles S. Dewey,

3/23/48

-26-

Vice President of The Chase National Bank of New York, to discuss the Board's position with respect to requiring national banks in Hawaii to become members of the Federal Reserve System if Hawaii became a State, that Mr. Dewey stated he did not disagree fundamentally with the position of the Board, but that he was concerned about the cost to the Bishop National Bank of keeping a large amount of idle currency on hand. Mr. Clayton also said that he informed Mr. Dewey that the Board would be glad to consider, upon a proper showing of a need therefor, the establishment of a currency depot in Honolulu, and that Mr. Dewey indicated that he was entirely satisfied with this understanding.

All members of the staff excepting Messrs. Carpenter, Morrill, and Thurston then withdrew from the meeting.

The Personnel Committee submitted a memorandum dated March 18, 1948, with respect to the appointment of a Class C director at the Federal Reserve Bank of Boston reading as follows:

"After considering a number of names, the Personnel Committee believes that Mr. Henry Parkman, Jr., of Boston, is amply qualified for the appointment so far as his personal attributes are concerned. From personal association with him in Germany and also in recent months here, Governor Szymczak believes Mr. Parkman to be liberal in his economic philosophy and a man of capacity. His character and integrity are beyond question. The Parkman family has been one of the prominent names of New England for several generations.

"A difficult question, however, is presented by the fact that Mr. Parkman, although not now actively in politics, was recently appointed a member of the Metropolitan

3/23/48

-27-

"Transit Authority, which is a public body established within the last year, operating the Boston Elevated System. The Board consists of five trustees, one being designated as Chairman. All were appointed by the incumbent Governor with the advice and consent of the Governor's Council. The Governor's Council is composed of nine members elected by the people during the regular gubernatorial campaign. The present Council is said to be composed of eight Republicans and one Democrat.

"The members of the Board of Trustees of the Metropolitan Transit Authority receive a salary of \$8,000.00 per annum, with the exception of the Chairman, who receives \$10,000.00 per annum. While the law does not contemplate that these appointments should be political (the terms are staggered, one term expiring each two years), nevertheless it has been said by one or two men in Boston, who were asked about the matter, that the appointments are considered in the nature of a reward for people prominent in the Governor's party. The law requires, however, that not more than three members of the Board shall be of the same political party.

"The Personnel Committee does not feel that it should make a definite recommendation respecting Mr. Parkman in view of this political question and submits the matter to the Board for its consideration."

The matter was discussed in the light of the resolution adopted by the Board on December 23, 1915, with respect to the appointment as directors of persons holding political or public office, and the suggestion was made that it would be desirable to review the question of Mr. Parkman's appointment in the light of decisions made by the Board in individual cases in the past.

After a discussion, it was agreed unanimously that the Personnel Committee should make such a review and resubmit the matter to the Board for further consideration.

3/23/48

-28-

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 March 22, 1948, were approved unanimously.

Memorandum dated March 17, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that the services of Alfred Sherrard, an economist in that Division, be loaned to the Department of State for such time as may be necessary within a period of six months. The memorandum also recommended that Mr. Sherrard's salary be paid by the Board during this period, with the understanding that all travel expenses, including per diem, would be paid by the Department of State.

Approved unanimously.

Memorandum dated March 22, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Catherine B. Billingsley, a charwoman in that Division, be accepted to be effective, in accordance with her request, at the close of business March 16, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

3/23/48

-29-

Letter to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of March 17, 1948, the Board approves the appointment of Charles Arthur Gore, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Dallas. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of the "American State Bank", Lubbock, Texas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Federal Reserve Bank. The telegram contained the following additional comment:

"Bank is allowed until July 1, 1948, to accomplish membership and letter to bank will contain

3/23/48

-30-

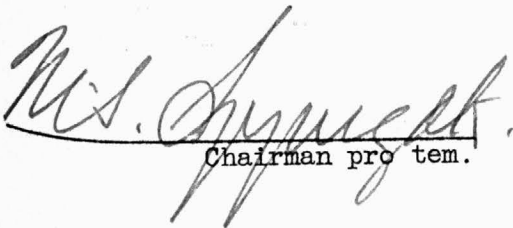
"paragraph reading quote it appears that the bank possesses authority to exercise certain powers not usual to commercial banking such as the power to issue investment certificates, but it is understood that such powers are not to be exercised. The application has been approved on this basis and attention is called to the fact that under the provisions of condition of membership numbered one if the bank should desire in the future to exercise such powers, it will be necessary for the bank to obtain the permission of the Board of Governors to do so unquote.

"It is noted that the bank plans to obtain a Blanket Bond of \$35,000, which appears low if the volume of business develops in accordance with the organizers' estimates. It is noted, however, that the management has assured the Reserve Bank that as the volume increases it is their intent to increase the coverage from time to time in accordance with the recommendation of the insurance authorities of the ABA and other protective agencies so that adequate insurance will be maintained at all times. The application has been approved with the expectation that that program will be carried out."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.