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 Monday, February 28, 1949, at 3:00 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary

Messrs. Erickson, 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. Young, Secretary of the Presidents' Conference

The Presidents met in separate session on Friday and Saturday, February 25 and 26, 1949, and before this joint meeting a memorandum relating to topics which the Presidents wished to discuss with the Board was furnished to the members of the Board. The statement of the Presidents and the discussion with respect to each of the topics at this joint meeting were as follows:

1. Time records and "Units handled per production hour."
The Conference gave consideration to the letter report, dated February 1, 1949, from the Chairman of the Committee on Accounting to the Chairman of the Committee on Operations, supplementing the report of

the Committee on Accounting to the Committee on Operations, dated November 17, 1948. These reports contain a detailed recommendation with respect to a method of keeping time records for calculating production hours to supplement the previous recommendation of the Committee on Accounting and the Accounting Conference of September 13-15, 1948, that provision be made for reporting items handled per production hour. The views and recommendation of the Committee on Operations with respect to this entire matter were also received and considered. The Committee on Operations emphasized its appreciation of the excellent work which has been performed by the Committee on Accounting, working with the members of the Board's staff; however, the Committee was of the view that it would be better to have one instrument of measurement rather than two (one based on "unit costs" and the other on "units handled per production hour"). It appeared to the Committee that the primary purpose of computing "units handled per production hour" would be the elimination of salary differentials in comparing the operating results achieved by the various Reserve Banks, and the Committee believes that this can be accomplished in a simpler manner than that recommended by the Committee on Accounting. Accordingly, it was the recommendation of the Committee on Operations, which the Conference unanimously approved, that the recommendation of the Committee on Accounting should not be adopted. It was agreed that this action should be reported to the Board, since the Board might wish to discuss the subject at the joint meeting on Monday.

Chairman McCabe asked what the Presidents had in mind by the comment in the above statement that the purpose of computing "units handled per production hour" could be accomplished in a simpler manner than that recommended by the Committee on Accounting.

Mr. Leach responded that the Presidents' Conference and the Accounting Committee were in agreement as to objectives but that the Presidents felt it would be preferable to continue to work on perfecting the existing procedure for determining unit costs rather than to start the computation of a new unit of measure. Comparisons between banks now have limited usefulness, he said, because of salary differentials, but this difficulty could be overcome quite easily by computing an "adjusted unit cost" which would be the unit cost if all 12 banks paid the same average salary. He pointed out that the various banks now have established methods for determining relative efficiency within their own organizations and paying salaries on the basis of merit. He felt that there were certain weaknesses in the proposed "units handled per production hour" figures because they would greatly increase the records that would have to be maintained by the Federal Reserve Banks, and because they would be affected by practices of the respective Banks with respect to rest periods and other periods throughout the day when employees would not be working, and by differing policies of the Banks with respect to the employment of higher salaried people with greater efficiency. He also recognized that the present per unit cost figures had weaknesses but felt that if these cost figures could be perfected and put on a more comparable basis at all of the Federal Reserve Banks, the results would be more satisfactory than the procedure proposed by the Committee on Accounting.

Chairman McCabe referred to the performance and efficiency records maintained by industrial concerns and to a discussion at a recent meeting of the Board of Directors of the Federal Reserve Bank of Dallas which he attended and at which the Directors had shown a great interest in the low per unit cost record made by the Bank and a desire to have some comparative standard on which the efficiency of the employees could be determined. He also suggested that, with that attitude of the Directors in mind, it would be desirable to maintain records which show the comparative efficiency of the individual employees.

Mr. Earhart referred to some of the difficulties that would be encountered in undertaking to carry out the recommendation of the Committee on Accounting, and a discussion of the results that might be obtained from the proposed procedure there ensued.

Mr. Leach pointed out that there were local conditions in each of the Federal Reserve Banks which affected the production figures of the Banks so that, in appraising the work of the Banks, it was not possible to look at the figures alone without taking these local conditions into account.

Chairman McCabe stated that he was interested in procedures which would keep the Federal Reserve Banks at the highest possible efficiency.

Mr. Davis expressed the view that it was not possible to compare all of the various operations in the Federal Reserve Banks with other operations because of different conditions applying in different cases and that while some of the functions could be compared on the basis of unit cost, such was not the case with all operations.

Mr. Leach commented that the Presidents had felt that the Federal Reserve Banks should avoid becoming involved in a complicated record keeping procedure and that it was questionable whether the procedures proposed by the Committee on Accounting would produce any better results than the present records.

There was a general discussion of the objectives sought in the maintenance of cost production records and the extent to which records of the performance of departments, units, and individual employees are maintained in business concerns.

Mr. Davis stated that there was no difference as to the objectives sought, and it would be his suggestion that it be understood that the Federal Reserve Banks would continue to work toward the refinement of their present unit cost figures and would defer any action on the maintenance of records of "units handled per production hour" until the unit cost procedure had been more nearly perfected.

Chairman McCabe stated that the Board would like to give the matter further consideration and discuss it with the Presidents at the time of their next conference.

2. Federal Reserve Bank budgetary procedure. Several aspects of existing budgetary procedure were considered by the Committee on Operations at its meeting on Friday morning. As a result, the Committee has made the following recommendations, with which the Presidents have expressed agreement and which they desire to submit to the Board for its consideration at the joint meeting on Monday:

(a) That the date of filing the budget be changed from October 1 to December 15, as recommended by the Committee on Accounting and unanimously approved at the Accounting Conference of September 13-15, 1948.

(b) That the comparative figures submitted with the new budget on Form 634a should constitute the actual expenses either (1) for the preceding year even though it would be necessary to include estimates for the last two months, or (2) for the latest twelve months for which figures are available. Last year the Board requested actual expenses for the year ending the preceding June 30.

(c) That the following recommendations of the Committee on Accounting (then the Committee on Expense Accounting) contained in its report dated May 28, 1947, be adopted:

> "The Committee recommends that the following expense items be considered noncontrollable and that they be exempted from the requirement that notices of excess expenditures in function totals resulting from increases over the amounts set up in the budget for these items need be given. Further, that they be excluded from the requirement that an explanation be given for any substantial differences between budget figures and actual expenses for a prior period: Taxes on Bank Premises; Retirement System Contributions for Current Service; Postage and Expressage; Postage and Shipping Charges in each Federal Agency unit; Shipping Charges on Currency and Coin Shipments; Federal Reserve Currency, Original Cost and Cost of Redemption. It is further recommended that the above exemptions apply to expenditures specifically approved and assessments levied by the Board of Governors."

(d) That the Board of Governors be asked to amend its request for advance advice when it appears that expense for a certain function will exceed the budget so as to except from such request small excesses, such as those which are less than 10 per cent of the function total in the budget.

Chairman McCabe stated that it was the thought of the Board of Governors that the proposals contained in the Presidents' statement (with the possible exception of paragraph (b) which the Board might consider separately) could be referred to the Budget Committee, appointed in accordance with the action taken at the last meeting of the Conference of Chairmen of the Federal Reserve Banks and consisting of three Chairmen of the Federal Reserve Banks and two members of the Board of Governors.

The various factors to be taken into consideration in determining the date for filing the budgets of the Federal Reserve Banks with the Board were discussed and some of the Presidents raised the question whether the proposals in the Presidents' statement, which it was felt were more in the nature of operating rather than policy problems, were of a character that should be referred to the Budget Committee of the Chairmen's Conference.

Chairman McCabe stated that the suggested date for filing with the Board raised the question whether it was to be expected that the Board would pass on the budgets before the beginning of the new budget year or some weeks later and that it would not be possible to consider and act on the budgets by January 1 unless they were submitted several weeks in advance of that date.

The Presidents agreed that if the Board were to pass on the budgets by the first of the new year, they would have to be submitted early in October or November, and that the only reason for suggesting the later date was that it would make it possible for the Federal Reserve Banks to base their budget estimates on more current expense figures for the current year. Some of the Presidents questioned the necessity for the Board passing on the budget before the first of the year and suggested a tentative approval by that date with final approval sometime after the beginning of the year.

At the conclusion of the discussion it was understood that the Board would consider the proposals contained in the above statement and advise the Presidents of its conclusions.

3. Member bank capital requirements. At its meeting on Friday, the Conference received an informal report on the current status of pending and contemplated legislation in which the Federal Reserve System is interested. The Presidents understand from this report that the Board has submitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation the draft of a proposed bill to modify member bank capital requirements which was enclosed with the Board's letter of April 30, 1948, to each of the Presidents and was considered at the meeting of the Conference on May 12, 1948 (mins., pp. 12-14). In the view of the Presidents, it would seem desirable to press forward with the legislation, since there appears to be general agreement within the System as to objectives of legislation on this subject, and they expressed a desire to re-emphasize their position at the joint meeting on Monday.

Mr. Davis stated that the Presidents had adopted the above statement merely as a restatement of their position on the legislation and to suggest that the legislation not be overlooked.

Chairman McCabe responded that the Board was in complete agreement with the Presidents on the matter and that the introduction of the legislation was a matter of timing.

4. Legislation for conversion of national banks to State banks. From the informal report on the current status of pending and contemplated legislation which they received, the Presidents were informed that the bill for legislation to provide a procedure for conversion of national banks to State banks and for their consolidation has been introduced in the Congress, and that the Board has been giving consideration to the position which it should take in respect of the legislation. After some discussion, it was the view of most of the Presidents that, while enactment of the legislation might result in some loss of System membership, the legislation should be considered on its own merits, independent of any other legislation, and that in equity and fairness to all banks the legislation should not be opposed by the System. There was general agreement by the Presidents with the suggestion that this subject be listed for discussion at the joint meeting in order that the Presidents might be informed of the Board's view and in order that they might present their views to the Board.

Chairman McCabe stated that the Board had received a request from the Chairman of the Senate Banking and Currency Committee for a report on the bill referred to in the above statement and that it had sent a draft of the report to the Budget Bureau for comment. He also said that the draft expressed the hope that action on the bill could be deferred until consideration could be given to the problem of reserve requirements, that the recent economic report of the President of the United States recommended that authority to require banks to hold supplemental reserves be made applicable to all insured banks, and that in the event such legislation was enacted the Board would have no objection to the enactment of the bill relating to conversion of national banks.

The draft of report referred to by Chairman McCabe was read and Mr. Davis stated that, while the Presidents were not anxious to encourage withdrawals from membership in the System, they were of the opinion that the proposed position of the Board would not prevent the passage of the bill but would adversely affect the relationships of the System with the State bank supervisory agencies, and that if possible that should be avoided.

Mr. Sproul suggested that the fact that one discrimination had not been removed by the Congress was not a good argument for opposing the removal of another discrimination.

Messrs. McCabe and Eccles emphasized the discrimination against member banks in the existing supplemental reserve requirements and the latter stated that if that discrimination were not eliminated and the legislation with respect to conversion of national banks was approved, there would be a substantial number of conversions that otherwise might not take place.

Mr. Leedy stated that he was in the minority in the Presidents' discussion of this matter and that he felt that it was proper for the Board to oppose the bill on the grounds that by doing so it was preserving the dual banking system. He also said that the proposed legislation under existing circumstances would encourage conversion and absorption into State banks which he thought was undesirable at this time.

Further comments by the Presidents were to the effect that the System should not depend on discriminatory statutes to maintain membership in the System and that opposition to the proposed bill would needlessly injure the good working relationship that had been established with the State supervisory authorities.

Mr. McLarin stated that the trend in the Sixth Federal Reserve District had been in the direction of conversion from State to national banks and he did not think the adoption of the bill would have any material effect in that district. Other Presidents expressed the view that if there were further increases in member bank reserve requirements and the bill under discussion was approved, there would be a substantial number of withdrawals from the national banking system.

Mr. Davis concluded the discussion with the statement that the Board had taken the right position in its earlier letter to the American Bankers Association with respect to the bill and while the Presidents did not like to see any further withdrawals from the Federal Reserve System they did not believe the letter now proposed was a proper one for the Board to send or that it would stop the adoption of the conversion legislation. Also, he said, it would give the

State banking authorities a further ground for their charge that the Board was opposed to the dual banking system.

Chairman McCabe stated that the Board would be glad to take the views of the Presidents fully into account in determining whether the proposed report on the bill should be sent.

5. Possible inclusion of Reserve Bank employees under the Social Security program. The Conference gave some consideration to the possibility that employees of the Reserve Banks may be included under the Social Security program. Although the bill to broaden Social Security coverage, recently introduced in the Congress by the Administration, apparently does not apply to the Reserve Banks, it was the feeling of the Committee on Personnel, as reported to the Conference, that the System might be requested on short notice to make a recommendation with respect to whether or not the Reserve Banks should be covered. Accordingly, the Committee recommended that a special committee, consisting of Mr. Leedy, Chairman of the Committee on Legislation, Mr. Sproul, Chairman of the Committee on Personnel, and Mr. Williams, be appointed to keep in close touch with legislative developments in this field and to keep the members of the Conference advised. The Committee further recommended that the Conference express itself generally as in favor of a policy of moving toward integration with Social Security and that the special committee, recommended for appointment, proceed accordingly and request the Retirement Committee to undertake a study of the problems involved in integration. The recommendations of the Committee were adopted by the Conference, and Mr. Sproul was appointed chairman of the special committee. While the Presidents did not feel any discussion would be required, they desired to inform the Board of the action which had been taken.

Mr. Davis outlined briefly the reasons for the Presidents' opinion that it would be desirable for the Federal Reserve Banks to be covered by the Social Security program.

Chairman McCabe stated that there was a question of how far deductions from employees' salaries might go to cover retirement and Social Security benefits without becoming burdensome.

Mr. Davis responded that the Presidents' statement contemplated the integration of the Federal Reserve Retirement System with the Social Security program and not that Social Security benefits would be added on top of the benefits now provided by the retirement system.

There was agreement that no action was called for on this matter by the Board at the present time.

6. Salaries of examiners for Federal Reserve Banks. Reference was made to the Board's letter of January 12, 1949, to the Chairman of the Conference, advising that a question had been raised as to whether salaries paid examiners for the Reserve Banks were on a comparable basis to those paid examiners for other supervisory agencies, and requesting discussion of the subject by the Conference at the meeting just concluded. The Committee on Bank Supervision, to which the subject was referred in advance of the meeting, has obtained from each of the Reserve Banks comparative information with respect to salaries paid by the Federal and State supervisory agencies, as well as the Reserve Banks. This information was assembled by the Committee and disseminated to the Presidents at their meeting, with the recommendation that each of the Presidents take the information back with them and work out the situation at their respective Reserve Banks. The recommendation was approved, and it was agreed that any problem which might exist could be worked out within the framework of the job classification and salary administration plans at each of the Banks.

Chairman McCabe stated that as a director of the Federal Reserve Bank of Philadelphia he had understood the examination department less than any other department, that the examiners were on the road most of the time and were not known to the Directors, but that he had felt that the department should have the best men available to carry on the examination work of the Bank and that the salaries of examiners should be fixed with that in mind.

Several of the Presidents expressed the opinion that while the quality of the work of Federal Reserve examiners was entirely comparable to or better than that of national bank examiners or examiners for the Federal Deposit Insurance Corporation, there was still room for improvement. Reference was made to the circumstances leading up to the Board's letter of January 12, 1949, asking that the subject of examiners' salaries be placed on the agenda for the discussion at this meeting. There was a discussion of the extent to which the examining departments might be used as a training ground for greater responsibility in other departments of the Federal Reserve Banks and the extent to which other departments might be used as a training ground for examiners. During this discussion some of the Presidents stated that existing salaries of Federal Reserve examiners were too low.

Mr. Eccles referred to the responsibility of the Board for adequate examination of member banks and to the relationship of examination policy to the overall credit policy of the System. He also stated that, with the changing conditions and the large increase in the loan portfolios of member banks, it was important that there be uniformity in examination policy and that the Federal

Reserve Banks have an intelligent examining force so that examination policy could be closely related to the monetary and credit policies of the System. He also added that if the salaries now being paid were not sufficient to attract examiners of outstanding ability these salaries should be raised.

Mr. Peyton questioned whether the law intended that the System would use the function of bank examination as a means of carrying out System credit policies and Mr. Eccles expressed the opinion that it did.

Following a brief discussion of the level at which examiners were classified in the Banks' personnel classification plans, Chairman McCabe stated that a period of depression would be the "war period" for the Federal Reserve System, that the System should be preparing for that period now, that the examining departments of the Federal Reserve Banks should be reappraised from the standpoint of their competency and a revaluation of the work that they might be called upon to do.

Mr. Sproul stated that that was what the Presidents proposed to do.

Chairman McCabe stated that the Board felt that the men in charge of the branches of the Federal Reserve Banks occupied a very important position both from the standpoint of the Federal Reserve System and in the community in which the branches were located, and that he was convinced that these officers could be of tremendous help in bringing about an understanding of the System and creating good will. He also said that at the proper time he would like to have a reappraisal made of these positions and of the functions that the managing officers performed so that a System concept could be developed as to the place these officers would be expected to fill.

This concluded the consideration of the matters referred to in the Presidents' memorandum of topics to be discussed with the Board.

7. Regulation W, Consumer Instalment Credit.

Chairman McCabe stated that while the Presidents were in Washington the Board would like to have any comments that they might wish to make with respect to the liberalization of Regulation W, Consumer Instalment Credit. He informed the Presidents of the recommendation made by the Federal Advisory Council in this connection and referred to various proposals that had been submitted to the Board by outside parties.

Mr. Davis stated that the Presidents had anticipated that they would have an opportunity to discuss this matter with the Board and in their separate conference had not reached a consensus or expressed any opinions other than had been submitted to the Board by the Federal Reserve Banks in response to the Board's inquiries. He also said that the Federal Reserve Banks appreciated very much the present practice of the Board of asking for the views of the Banks on various questions coming before the Board.

The suggestion was made that following the meeting of the Federal Open Market Committee tomorrow the Presidents give their views on the amendment of Regulation W.

Mr. Davis stated that he and Presidents Erickson, Williams, and Peyton would not be present at the meeting tomorrow and it was agreed that they should state their views before the adjournment of the meeting this afternoon. Thereupon, statements were made by Messrs. Davis, Erickson, Williams, and Peyton.

> Secretary's note: Following the meeting of the Federal Open Market Committee on March 1, 1949, the reports of the Presidents were resumed and statements were made by the remaining eight Presidents of the Federal Reserve Banks. The following is a summary of the Presidents' views. Seven of the eight Presidents reporting on March 1 also stated that they were in favor of action by the Board at the proper time to reduce margin requirements prescribed in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, from 75 per cent to 50 per cent:
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> One President would abolish Regulation W for the reason that he did not believe it was needed at the present time. One would not pay too much attention to the economic effects of a relaxation of the Regulation and felt that if, all things considered, it was felt desirable to relax the Regulation he would do so. One favored relaxation of the Regulation immediately by keeping the present minimum down payment and fixing maximum maturities at 24 months on all listed

items and unclassified loans. One would act immediately to raise the $50 exemption to $100 and to provide for group B items a down payment of 10 or 15 per cent (perhaps 15 per cent on credits up to $500 and 10 per cent on credits on $500 and over) and a maximum maturity of 18 months. One felt that relaxation on Class B items would be justified now but he did not specify the form of relaxation. One favored action certainly by April 1 to fix the minimum down payment at 10 per cent on appliances and maximum maturities at 24 months on all listed items and unclassified loans. One did not know whether conditions were such that action should be taken immediately but felt that the Board should be alert to act as soon as conditions warranted. One was of the opinion that whether action should be taken now or 30 or 60 days from now would depend on developments and that, while the Board should be prepared to take flexible action, it should not stop the current readjustment from taking place. Two would not act before around April 1 unless conditions changed, but they believed that action should be taken by that time as a part of the over-all credit policy of the System of exercising a neutral influence in the monetary and credit field. Two would not take action at this time, one for the reason that further price adjustments would be healthy and the other because conditions did not justify action at this time.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.