Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 8, 1949. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Nelson, Director of the Division of Personnel Administration

Mr. Vardaman stated that he had asked that a memorandum prepared by Mr. Leonard under date of February 19, 1949, with respect to Federal Reserve Bank and branch building projects, copies of which had been sent to each member of the Board before this meeting, be considered with a view to reaching a decision whether the Board should continue the policy set forth in its letter of February 27, 1948, (S-1015). The letter stated that, except in the case of emergencies, the Board did not believe that extensive alterations or improvements to Federal Reserve Bank buildings should be undertaken or new Federal Reserve Bank buildings constructed in times of pronounced inflationary conditions or when there were substantial shortages of labor and construction materials.

At Mr. Vardaman's request, Mr. Leonard discussed the memorandum, stating that the question involved was whether conditions in the past year had changed to such an extent as to justify permitting several Reserve Banks and branches to go ahead with highly desirable and urgently needed building projects even though they might not be of an emergency character, and whether it might be well for other Reserve Banks to prepare plans for desirable future construction in order that the plans would be available in case an increase in construction were needed to help maintain business activity. He also reviewed the authorizations that had been granted by the Board from the $10,000,000 authorized by Congress in 1947 for construction of Federal Reserve branch buildings, stating that if other substantial construction were contemplated at the branches it would be necessary to request additional authority from the Congress, since only about $1,000,000 of the $10,000,000 was not allocated to projects either approved or considered as having a prior claim upon the fund. He also referred to the action of the Board at the meeting on February 23, 1949 at which time it agreed that the Federal Reserve Bank of Chicago should be informed that action on the request for authority to proceed with the construction of the addition to the Detroit Branch would be postponed for 60 days at the end of which time the outlook as to inflationary conditions might be clearer.

There was a discussion of the policy that should be followed in the light of present and prospective economic conditions, during which it was suggested that no change in existing policy be made at this time but that the matter be considered again at a meeting early in May.

This suggestion was approved unanimously.

Mr. Clayton raised a question as to the authority of the Federal Reserve Banks to make expenditures to change, repair, or modernize their buildings to provide satisfactory working conditions, and it was agreed unanimously that, if necessary, it should be made clear to the Banks that the Board would authorize such expenditures.

It was agreed unanimously to ask Mr. Leonard to check this matter and suggest what, if any, action needed to be taken by the Board with respect to it.

Mr. Thomas entered the meeting at this point.

There was then presented a memorandum dated February 1, 1949, from the Committee on Staffing of Foreign Missions, prepared pursuant to the action at the meeting on October 19, 1948. The memorandum had been circulated among the members of the Board prior to this meeting.

Mr. Szymczak discussed the memorandum, stating that it reviewed the practices that were being followed and set forth a procedure which might be considered as a guide with respect to staffing foreign missions and use of personnel from the Board's organization, or elsewhere, for this purpose.

Chairman McCabe stated that the memorandum covered the point he had in mind at the time he raised a question concerning such missions at the meeting on October 19, 1948.

Mr. Szymczak stated that the report did not call for action by the Board.

Reference was made to the discussion at the meeting on March 4, 1949, of proposed changes in the Retirement System and to a memorandum from Mr. Nelson dated February 9, 1949, with respect to optional retirement before age 65 without full actuarial discount. The memorandum was accompanied by a draft of letter to the Federal Reserve Banks which would authorize them, under certain conditions, to submit for the Board's consideration proposals to make supplemental payments to the Retirement System in cases of voluntary termination of service of members after age 55 and completion of 25 years of service, in addition to the authority contained in the Board's letter S-741, dated March 17, 1944, to make supplemental payments to the Retirement System in cases of involuntary separation after age 55 and completion of 25 years of service. Some of the Reserve Banks felt that the requirement that such employees be involuntarily separated was objectionable, and they had suggested that a means be provided for effecting earlier retirement in cases of superannuated employees on a basis more advantageous than is provided under the present rules of the Retirement System.

Mr. Nelson stated that the Chairmen's Conference committee studying the Retirement System had looked into the possibility of providing optional retirement after age 60 and 30 years of service without actuarial discount, along lines similar to the provisions of the Board Plan and the Civil Service Retirement System, but that, because of the cost, it was not contemplated that such a change would be made in the Bank Plan. However, the proposed letter would permit a bank to recommend to the Board that employees over age 55 be retired with an actuarial discount of 2-1/2 per cent per year in their benefits which would be substantially less than the actuarial discount that would be applied under the optional retirement privileges provided in the Rules and Regulations of the Retirement System.

Following a discussion, the letter was approved unanimously in the following form, with the understanding that it would not be mailed until the proposed changes in the Retirement System, as discussed at the meeting on March 4, had been approved by the Board:

"During the recent study by the Chairmen's Conference of the benefits of the Retirement System of the Federal Reserve Banks, consideration was given to optional service retirement before age 65 in cases of employees with long service. While the Retirement Committee recommended that age 65 be retained as the normal retirement age it was suggested that consideration be given to providing some means for effecting earlier retirement, in particular cases, on a more advantageous basis than the present rules permit.

"In the Board's letter of March 17, 1944 (S-741) the Federal Reserve Banks were authorized to make supplemental payments to the Retirement System in cases of involuntary termination of service of members after age 55 and completion of 25 years of service, in amounts necessary to provide a retirement allowance consisting of (a) an annuity of equivalent actuarial value to the member's accumulated contributions plus (b) a pension equal to the pension which the member would receive if he were age 65 at the date of involuntary termination of employment, reduced by $2\frac{1}{2}$ per cent for each year the member lacks of being age 65.

"It is understood that a few special cases arise from time to time involving employees with long service who become superannuated before reaching age 65. Although in many of these cases the Bank desires to retire these employees and make a supplemental payment to the Retirement System on their behalf, it hesitates to recommend an involuntary separation, which is one of the requirements of S-741. In the event that you have any such cases in the future it is suggested that they be submitted to the Board for consideration, together with the recommendation of your Board of Directors."

Mr. Nelson then referred to his memorandum of February 9, 1949, with respect to supplemental retirement allowances for Presidents and First Vice Presidents of the Federal Reserve Banks having short service. He stated that this question had arisen several times in connection with the appointment or proposed appointment as President of Federal Reserve Banks of men relatively late in life, and that while he recognized there was a problem involved, he did not recommend that the rules and regulations of the Retirement System be amended to provide for such cases, or that the Board establish any definite formula which would be applicable under such circumstances. In this connection, he referred to a memorandum prepared by Mr. Baumann, Assistant General Counsel, under date of February 14, 1949, with respect to the tax aspects of any proposal to give higher paid officers of the Federal Reserve Banks special benefits under the Federal Reserve Retirement System, which indicated that such provisions or practices might remove the present exempt status of the Retirement Fund within the meaning of Section 165-A of the Internal Revenue Code and that if such status were lost, it would probably result in a prohibitive tax on the Retirement System.

During a discussion of the matter, Chairman McCabe suggested that consideration be given to establishing a minimum pension benefit for employees retired from the Federal Reserve Banks who had completed a minimum amount of service. In this connection he suggested the possibility of a pension and normal annuity equal to not less than 25 per cent of average salary for all persons who had completed ten or more years of service. Question was also raised whether, if such a proposal were made effective, it should apply to employees of the Board.

It was understood that Mr. Nelson would make a study of Chairman McCabe's proposal and submit a memorandum for the consideration of the Board.

Before this meeting there had been circulated a memorandum from Mr. Vest, prepared under date of February 23, 1949, in accordance with the understanding at the meeting on January 25, 1949, reviewing the application of Section 32 of the Banking Act of 1933 with special reference to the standards being used in determining whether a firm is "primarily engaged" in the securities business and the possibility of some additional exemption being provided in Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933. The memorandum reviewed the legislation, the history of its administration by the Board and the Federal Reserve Banks, and, without recommending that any additional exemption be provided, listed several ways in which the regulation could be amended if that was considered desirable.

Mr. Clayton suggested that the Board consider whether an additional exemption should be provided in Regulation R along some of the lines suggested in Mr. Vest's memorandum. He stated that Congress had given the Board authority to make such exemptions, that it had made only one such exemption which was applicable to firms whose business consisted solely of dealing in Government securities, and that he felt there might be some other basis for exempting firms from the Regulation or perhaps for modifying the standards which the Board applied in screening situations for the purpose of determining whether firms were primarily engaged in the underwriting of securities within the meaning of the law.

Consideration was given to the possible need for an additional exemption and to various suggestions as to the kind of exemption that might be provided and the way in which each would operate. At the conclusion of the discussion, it was the consensus that the Regulation should not be changed at the present time since none of the suggested changes which might be permissible under the law could be made effective without opening the door to the possibility of undesirable relationships between bank officers or directors and members of securities underwriting firms, and also because any exemption that seemed practicable might result in requests for additional exemptions that should not be granted.

Mr. Clayton then referred to the request of Mr. Robert W. Kean, discussed at the meeting on January 25, 1949, that some action be taken which would permit him to continue to serve as President and Director of Livingston National Bank, Livingston, New Jersey, despite the fact that he is a partner in the firm of Kean, Taylor & Co., a New York City firm which the Board has tentatively determined to be primarily engaged in the securities business within the meaning of Section 32 of the Banking Act of 1933, and suggested that, inasmuch as Mr. Kean had called upon him concerning the matter, he write him a letter informing him of the Board's decision not to provide an additional exemptive provision in the Regulation, and that a letter be sent to the Federal Reserve Bank of New York by the Secretary informing that Bank of the Board's decision in the matter.

Mr. Clayton's suggestion was approved unanimously.

Secretary's Note: Pursuant to the foregoing action a letter was sent to the Federal Reserve Bank of New York under date of March 14, 1949 reading as follows:

"This refers to the Board's letter of August 23, 1948 with regard to the service under section 32 of the Banking Act of 1933 of Mr. Robert W. Kean as president and director of Livingston National Bank, Livingston, New Jersey, and as partner of the firm of Kean, Taylor & Co., New York, New York.

"As you know, Mr. Kean came to Washington and discussed this matter with one of the members of the Board and several members of the Board's staff. After further consideration of this matter the Board has reached the conclusion that the interlocking service referred to above falls within the prohibition of section 32.

"It will be appreciated if your bank will advise Mr. Kean regarding this matter. In this connection, there is enclosed a copy of a letter which Governor Clayton has written to Mr. Kean."

The meeting then adjourned and reconvened at 2:40 p.m. with the same attendance as at the close of the morning session, except that Mr. Millard was also present.

Mr. Clayton stated that he received a telephone call this afternoon from Mr. Rountree of the Treasury Department Savings Bond Division, in which the latter stated that the suggestion had been made in the Chicago District that dinners be given in each State in the district in connection with the forthcoming Savings Bond campaign, and that Mr. Young, President of the Federal Reserve Bank of Chicago, had suggested that the matter be taken up with the Board of Governors since it had informed him that it would interpose no objection to payment of the costs of a Savings Bond dinner in each city in which there was an office of a Federal Reserve Bank.

In this connection, Chairman McCabe stated that Mr. Vernon L. Clark, National Director of the U. S. Savings Bond Division, Treasury Department, had inquired of him whether the Board, for reasons which in Mr. Clark's opinion would justify the expenditure, would pay up to $5,000 of the costs of a Savings Bond dinner to be given by the President to about 600 national leaders in Washington in April 1949, and whether it would also provide a maximum allotment of $12,000 during the fiscal year 1950 to cover the cost of luncheons and dinners in connection with the promotion of the sale of Savings Bonds during the year.

It was the view of the members of the Board present that, because of the interest of the System in the sale of savings bonds, the Board might make a nominal contribution toward payment of the costs of the dinner to be given in Washington in April.

Chairman McCabe was authorized unanimously to discuss the matter with Secretary of the Treasury Snyder and to report back to the Board at a later meeting.

Chairman McCabe referred to the recent hearing before the Joint Committee on the Economic Report at which he appeared to testify on proposed legislation relating to increased supplemental reserve requirements and consumer instalment credit. He said that at that hearing, which was attended by the members of the Federal Advisory Council, Senator O'Mahoney suggested that the members of the Council might testify but that Mr. Brown, President of the Federal Advisory Council, responded that the Council would wish first to confer with the Board. Recently, Chairman McCabe said, Senator O'Mahoney inquired of him as to the views expressed by the Council at its meeting with the Board and that it had been ascertained from President Brown that the Council would have no objection to the Board giving to Senator O'Mahoney for his information the statements presented by the Council with respect to increased reserve requirements and consumer instalment credit. Chairman McCabe added that, if the Board would approve, he would like to send the following letter to Senator O'Mahoney:

"In our recent conversation you indicated an interest in the views expressed by the Federal Advisory Council at its last meeting with respect to reserve requirements and consumer instalment credit, "and I am pleased to enclose copies of the statements adopted by the Council on these subjects."

Approved unanimously.

Chairman McCabe presented the following draft of letter to the Honorable Wright Patman, Chairman, Select Committee on Small Business, House of Representatives, and recommended that it be approved by the Board:

"In accordance with my letter of March 1 acknowledging your request for certain information with respect to Regulation W, I am glad to send you herewith six copies of a memorandum on the subject prepared by our Staff, and accompanying charts and tables. Additional copies are available if you should wish them.

"We appreciate the opportunity to supply this information, and hope that you will call upon us whenever we can be of any assistance."

Approved unanimously.

At this point Messrs. Riefler, Vest, Thomas, Leonard, Nelson, and Millard withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 7, 1949, were approved unanimously.

Memorandum dated March 7, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that a fee be paid to Mrs. Edna Hardesty, a Registered Nurse employed during the absence of Miss M. Callie Wickline, the nurse in charge of the emergency room, at the rate of $11.60 per day for each day that she worked, and also recommending that $69.60 be charged to the Miscellaneous Expense Account of the 1949 Budget of the Division of Personnel Administration and that the appropriate item of the 1949 budget of that Division be increased by the same amount.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"In connection with your Bank's recurrent spot surveys of tendencies in durable goods and instalment credit in your District, as requested in the Board's letter (re S-953) dated January 27, 1947, it would be appreciated if you would give prompt consideration at this time to the following questions:

(1) To what extent have lenders and retailers relaxed their maturity and downpayment terms in line with recent changes in Regulation W?

(2) What evidence is there, if any, of marked change, other than seasonal, in sales and prices of regulated articles since the recent modification of Regulation W?

(3) Have there been any marked changes in the inventory situation in automobiles, appliances, and furniture?

(4) Are there any indications of possible difficulties or financial over-extension among producers or distributors of consumer durable goods?

"We suggest that you send by telegram or telephone any striking information relating to these questions that you may obtain in the course of your inquiries, and that a summary of developments during the first two weeks of the revised regulation be sent to reach the Board by March 23. Telephone calls on this matter may be referred to Mr. Ralph A. Young of the Division of Research and Statistics."

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Special Committee on Retirement System and Social Security, Federal Reserve Bank of New York, reading as follows:

> "This refers to your letter of March 3, 1949, requesting that someone be assigned to follow the legislation regarding the proposed enlarged Social Security program and to keep you advised concerning it. Accordingly, the Board has requested Mr. Vest and Mr. Cherry, who keeps in touch with legislation in which the Board is interested, to furnish you any information which they can obtain from time to time as to developments regarding the Social Security legislation."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.