

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 17, 1949.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 16, 1949, were approved unanimously.

Memorandum dated March 16, 1949, from Mr. Szymczak, recommending an increase in the basic salary of Mrs. Elsie N. Carrick, stenographer in his office, from \$2,874.48 to \$3,024.96 per annum, effective March 20, 1949.

Approved unanimously.

Memoranda dated March 15 and 17, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective March 20, 1949:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Eleanor M. Boylan	Clerk-Stenographer	\$2,498.28	\$2,724.00
Winifred Racz	Clerk	2,974.80	3,100.20
Mary M. Ryan	Clerk	2,498.28	2,573.52

Approved unanimously.

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Memoranda dated March 14 and 17, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending appointments to the staff in that Division, to be effective as of the dates upon which the appointees enter upon the performance of their duties after having passed the usual physical examination:

<u>Name</u>	<u>Title</u>	<u>Salary</u>	<u>Duration of appointment</u>
Albert Clarke Bain	Telegraph operator	\$2,498.28	Permanent
Miss Ethelyn K. Barnett	Stenographer	2,724.00	Permanent

Approved unanimously.

Letter to the Honorable Frank Pace, Jr., Director of the Bureau of the Budget, reading as follows:

"Enclosed herewith is a draft bill 'To amend section 9 of the Federal Reserve Act, as amended, and for other purposes', which the Board proposes to recommend to Congress.

"Also enclosed is a proposed transmittal letter which explains the bill in some detail. As stated therein, the primary purpose of the bill is to remove unnecessary deterrents to membership by State banks in the Federal Reserve System, and the Board believes that it is important that such legislation be enacted.

"Advice as to the relationship of this proposal to the program of the President will be appreciated."

Approved unanimously.

Letter to the Honorable Brent Spence, Chairman of the Committee on Banking and Currency, House of Representatives, reading as follows:

"We understand that your Committee expects to consider at an early date H.R. 1161, a bill to provide for the conversion of national banking associations into and their merger or consolidation with State banks, and

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"for other purposes. We would like to indicate to you the views of the Board of Governors regarding this proposed legislation and hope that this letter can be placed in the record of your proceedings on this bill.

"The Federal law now provides for the conversion of State banks into and their consolidation with national banks where such action is not in contravention of State law. The proposed legislation would make comparable provision for the conversion of national banks into and their consolidation with State banks. It also would prescribe certain restrictions upon the withdrawal of capital funds in connection with bank conversions, consolidations, and absorptions.

"In reporting on a similar bill introduced in the last Congress, the Board indicated that it had no objection to the enactment of legislation of this nature. The Board took this position because it is sympathetic with the principle of equality in the treatment of different classes of banks and is inclined to favor the elimination of discrimination in so far as practicable.

"Subsequently, however, Congress enacted legislation authorizing higher reserve requirements for member banks of the Federal Reserve System, without making such requirements applicable to nonmember banks. This legislation served to increase the already existing discrimination against national banks which are required by law to comply with the reserve requirements of the Federal Reserve System, whereas State banks are not subject to these requirements except as they voluntarily elect to become members of the Federal Reserve System. This is a new factor which must be given serious consideration in connection with the proposal under discussion here.

"The discrimination with respect to reserve requirements in the light of the recent Congressional enactment on the subject, in the Board's opinion, has much greater significance than the disadvantages attending the present procedures for denationalization. It is a direct discrimination against national banks which offers a substantial inducement for them to convert into nonmember State banks. Such inequality in reserve requirements already is a deterrent to operations under national charters and membership in the Federal Reserve System; and, as long as the supplemental reserve requirements recently prescribed by Congress apply only to member

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"banks, the Board does not believe that the situation should be aggravated by legislation facilitating denationalization.

"In the circumstances, the Board hopes that action with respect to H. R. 1161 can be deferred until consideration has been given to the problem of reserve requirements. The recent Economic Report of the President, in recommending that the Board be granted continuing authority to require banks to hold supplemental reserves, recommended that this authority not be confined to member banks of the Federal Reserve System but, instead, be made applicable to all banks insured by the Federal Deposit Insurance Corporation. In the event such legislation is enacted, the Board will have no objection to the enactment of H. R. 1161."

Approved unanimously.

Letter to Mr. Sheehan, Chief Examiner at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of March 10, 1949, and to previous correspondence concerning the resolution passed by the board of directors of the Wyoming County Bank and Trust Company, Warsaw, New York, indicating its intention to withdraw from membership in the Federal Reserve System, also the request of President Humphrey that the six months' notice provided by statute be waived.

"In view of your favorable recommendation, the Board of Governors waives the requirement of six months' notice as requested by the bank. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the trust company, you are authorized to cancel such stock and make appropriate refund thereon. The bank wishes to continue as an insured bank and as indicated in our letter of March 3, the Board of Governors has authorized the Federal Deposit Insurance Corporation to make an examination of the trust company in connection with its application for continuance of insurance after withdrawal from membership. In the circumstances the bank will have four months from the date of this letter to accomplish termination of its membership (F.R.L.S. #3548).

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"Please advise the Board of Governors when cancellation is effected and refund made. The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal and when such withdrawal has been effected."

Approved unanimously.

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

"In view of the current importance of changes in sales of consumers' durable goods, especially with reference to the effect of Regulation W, the Board would like to obtain from department stores certain weekly information on sales in certain key departments. Through such data indications of changes could be provided from 30 to 45 days earlier than can now be obtained from regular monthly data.

"The most readily available source of prompt current information on sales of durable goods by categories appears to be through department store sales, and it is hoped that a selected group of stores presently furnishing monthly data will agree to report weekly sales figures for the four departmental categories which represent the credit controlled items sold in department stores. Specifically, we have in mind the following departments:

Department Number	Title
71	Furniture and bedding
73	Domestic floor coverings
77	Major household appliances
82*	Radios, phonographs, television, records, sheet music, etc.

* Note that reference is made to department 82 instead of 82R. Although the latter category would provide cleaner statistics for purposes of Regulation W, the number of stores reporting the subgroup monthly is so small that we might not obtain an adequate sample of reports on the limited basis on which we propose to conduct this survey.

"It is requested, therefore, that you contact from six to ten of your departmental reporters, preferably those with the largest sales volume and located in your

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"immediate vicinity, and arrange for the reporting of weekly sales data for the above listed groups. Our tentative schedule calls for preparation of national summaries of district totals by Friday noon following the week to which the data refer. Weekly dollar sales totals for your district should, therefore, be wired or telephoned to the attention of Mr. Orville Thompson no later than 11:00 A.M. (Eastern Standard Time) each Friday morning. It is hoped that the first report can be made available to the Board on Friday, March 25, and will cover the three weekly periods ending March 5, 12, and 19. This will entail the collection of back data covering the weeks ending March 5 and 12. It will, of course, be necessary to obtain also figures for corresponding weeks last year in order that year-to-year percentage comparisons may be calculated.

"It is recognized that these weekly data will be unaudited, i.e., unadjusted for returns. In this connection, it would be very much appreciated if you would apprise us of any other qualifications which should be assigned the weekly figures for your district. For purposes of analysis, we propose to compile a weekly series that will be comparable with the monthly statistics by weighting the weekly figures in a manner designed to insure for each Reserve District a sales representation in the national weekly sample proportionate to that in the national monthly departmental sample.

"In the past, as you know, it has proved expedient to furnish district and national summaries of special statistical tabulations of this kind to cooperating stores in return for their willingness to provide the System with the basic data. If you feel that the figures for your district are sufficiently representative, and that the operations of any individual store will not be revealed, there is no objection to making district summaries available to respondents if you like or publishing them on occasion. It is not anticipated that national summaries will be released weekly, although they may be made public from time to time after some experience with the data."

Approved unanimously.

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Letter to the Honorable Frank Pace, Jr., Director of the Bureau of the Budget, reading as follows:

"This letter is in response to the President's letter of March 1, 1949, asking for the views of the Board as to appropriate action on the four reports of the Commission on Organization of the Executive Branch of the Government on (1) 'General Management of the Executive Branch,' (2) 'Personnel Management,' (3) 'Office of General Services - Supply Activities,' and (4) 'Budgeting and Accounting.' The President asked that the comments of the Board be forwarded to you by March 17, 1949, and, therefore, the views expressed below will be limited to comments on the four reports only to the extent that they might be of concern to the Federal Reserve System.

"The Board is in accord with the general objectives of the Commission reports and with the proposal that the President be given adequate authority to reorganize the Federal departments and agencies of the Government to accomplish these objectives. The recommendations of the Commission and particularly the recommendations contained in the report on the general management of the executive branch are, however, general in nature and in certain respects the details of their application are not clear. Therefore, it is the hope of the Board that when specific actions are proposed to carry out the purposes of the report the Board of Governors will be given an opportunity to comment on the proposals in so far as they might affect the Board and its relation with other Governmental agencies.

"The Commission report on the regulatory agencies has just been issued and the Board will wish to study this report and the accompanying task force report carefully. These reports take the position that 'the independent regulatory commissions have a proper place in the machinery of our Government, a place very like that originally conceived, but that the role of these commissions as originally established has not been adequately fulfilled.' Some of the Commission's criticisms of the regulatory agencies are not applicable to the Board of Governors and at the appropriate time the Board would be prepared to comment on them. One of the criticisms is that the coordination between the agencies and the general program

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"of the executive departments is often loose and casual and sometimes non-existent. The suggestion is advanced in the Commission report on the Treasury Department that coordination could be made more effective by the creation of a National Monetary and Credit Council of domestic financial agencies. The Board has been studying this proposal for some time and believes that it can best be carried into effect, without the extended study that would be needed for the establishment of a statutory body, by the creation by the President of an informal committee composed of the heads of the departments and agencies concerned for the purpose of promoting consistency in Federal loan policies and of such policies with the general economic policies of the Government. The Board would be pleased at the appropriate time to offer its views on the steps that might be taken to bring such a group into existence.

"It appears to the Board that, generally speaking, the recommendations contained in the four reports are designed to meet problems which have reached substantial proportions in the larger departments and establishments of Government and which are not necessarily pertinent to small organizations, such as this, where the problems do not exist or have been met. As you know, the Board of Governors is not subject to the Budget and Accounting Act of 1921, and its expenses are not paid from appropriated funds but from the proceeds of assessments levied by the Board against the Federal Reserve Banks pursuant to the provisions of section 10 of the Federal Reserve Act. Under this authority it has been possible to improve administration and effect savings in ways not open to other agencies. It has also been possible to relate the policies of the Board with respect to publications and to expenses, budgeting and accounting, personnel management, and other internal operations, to the specialized purposes for which the Board was created, and to integrate them with the operations of the Federal Reserve Banks which are subject to the Board's supervision. If the Board were made subject to the procedures proposed in the reports with respect to these activities, many of the benefits and savings resulting from the present specialized procedures would be lost and the work of the Board would be seriously hampered without any of the compensating benefits contemplated from the application of general procedures to large departments of the Government which do operate under appropriated funds.

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"On page 2 of the Office of General Services and Supply Activities Report, the recommendation is made that supply, records management, and operation and maintenance of public buildings be placed in an Office of General Services under a director appointed by the President. The Board can readily see the logic of such a recommendation when applied to the larger offices of Government the expenses of which are paid from appropriated funds, but the application of these general procedures to a small organization which has been able to gear its activities in these fields to meet its specialized needs would decrease efficiency and increase expense both to the Board and to the central office. The expenses of the Board are primarily for salaries and the annual amount of supplies purchased is relatively very small.

"Notwithstanding the fact that the total volume of the Board's records is small, we have had in effect for a number of years, under a staff member with wide experience, an active policy of records administration including the microfilming and destruction of old records, so that the problem of storage has been held to a minimum.

"Also as you know, the funds from which the Federal Reserve building was constructed were derived from assessments levied against the Federal Reserve Banks and not from appropriated funds and Congress has provided in section 10 of the Federal Reserve Act that the Board should have full control of the building and space therein. A high standard of maintenance and utilization has been possible with a minimum of building personnel and other expenses under the direct control of the Board and it has cooperated at all times with the Public Buildings Administration in the solution of any questions that have infrequently arisen.

"The Board prepares an operating budget annually to insure complete control of its expenditures. This budget, which is essentially 'a performance budget', is given final consideration by the Board each December for the succeeding calendar year. The Board maintains books and accounts and disburses its own funds in accordance with an accounting system designed to meet the needs of the Board and a statement of the Board's income and expenses is submitted to the Congress each year in its Annual Report. The Board's books are also audited twice each year by an auditor from one of the Federal Reserve Banks.

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"The Board of Governors is in accord with the recommendations of the Commission with respect to the statistical activities of the Federal Government. It is recognized, however, that the detailed implementation of these recommendations may present problems and the Board would welcome an opportunity to comment on any specific measures that are designed to carry the recommendations into effect.

"The report on Personnel Management outlines desirable objectives and changes in present procedures designed to decentralize personnel administration. In the discharge of its responsibilities for supervision of the Federal Reserve Banks, the Board is following with satisfactory results a plan of job evaluation and salary administration similar to that proposed in the report. It has been the policy of the Federal Reserve for a number of years to promote a career system which contemplates the interchange of employees between the Reserve Banks and the Board. However, the 18,000 employees of the Banks are not Federal employees, and if the Board's staff were under the classified Civil Service, such interchange of employees would be seriously hampered. The staff of the Board consisting of 529 employees is very small (smaller than that of any of the other eight regulatory agencies listed), and has been carefully selected through the choice of the persons best qualified by training and experience for the specialized work that the Board has been called upon to do. The Board believes that it is preferable to make selections of employees on the basis of standards prescribed in the light of the specialized skills required rather than on the basis of general specifications prescribed for employees in the large departmental services. The employees of the Board have never been under the classified Civil Service, and when the question arose in 1940, the President of the United States took the position that it was not his intention to place the employees of the Board under the classified service.

"For the reasons indicated above, the Board is of the opinion that it would be preferable if procedures, designed for general application to departments and agencies operating on appropriated funds in connection with personnel management and budgeting and accounting and other 'housekeeping' functions, were not made applicable to the Board. Should any specific suggestions be made to the contrary the Board would appreciate an opportunity to discuss them.

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"The Board appreciates the privilege of making the above comments and will be glad to cooperate in any way it can in further consideration of the problems involved in this important matter."

Approved. Mr. Vardaman had advised that if he were present he would vote "no" on the letter for the reason that he felt that at this time the acknowledgment of the President's letter should only say that the Board did not feel it should comment on the reports until all of the Commission's reports had been submitted and the Board had had an opportunity to study them.

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

"In order to carry out certain changes in the accounting and collection of the Board's funds it has been decided to request the Federal Reserve Banks, effective April 29, to make payment for printing Federal Reserve notes in the month following the one in which they are printed. We will continue, however, to wire on the last Government business day of the month the cost of any Federal Reserve notes printed during the month for your Bank. If the amount is charged to original cost of Federal Reserve currency on your bank's books in the current month, the corresponding credit should be to 'Sundry items payable.'

"The necessary revision of code word CUBWO will be included in the revised pages of the Federal Reserve code book which are now in process of printing and will be mailed to you shortly.

"At the same time code word CULEH is being revised so that its definition will include a request to wire the Federal Reserve Bank of Richmond of the deposit to cover semiannual expenses of the Federal Reserve Issue and Redemption Division, and a new code word, CORSE, will be supplied for use in notifying the Richmond Bank."

Approved unanimously.

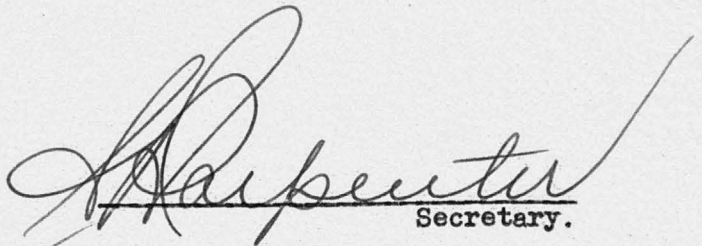
Telegram to Mr. Agnew, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

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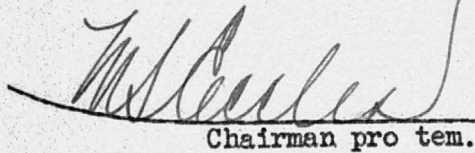
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"Retel March 16, 1949. Board authorizes you to furnish information requested by Federal Bureau of Investigation concerning amount of capital stock of your bank owned by First National Trust and Savings Bank of Fullerton, Fullerton, California."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.