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Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 28, 1949. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary  
Mr. Hammond, 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, Division of Bank Operations  
Mr. Young, Associate Director, Division of Research and Statistics

Before this meeting there had been sent to each member of the Board copies of two memoranda from Messrs. Riefler and Young and Mr. Youngdahl, Chief of the Banking Section, Division of Research and Statistics, on Need for Positive Program of Credit Policy to Counteract Deflation and Management of the Bill Market under a Program of Credit Policy to Counteract Deflation, dated June 26 and 27, 1949, respectively. At this time there was distributed an additional memorandum prepared in the Division of Research and Statistics under date of June 27, 1949, on The Current Economic Situation and Outlook.

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At Chairman McCabe's request, Mr. Young read the memorandum of June 26, 1949, on Need for a Positive Program of Credit Policy to Counteract Deflation which was a revision of the memoranda considered at the meeting on June 24, 1949, and which stated that although a change in credit policy could not in itself halt present deflationary tendencies or assure, once deflation had run its course, a revival in economic activity, it would help prevent corrective adjustments from going too far and, after correction had proceeded sufficiently, help set in motion a characteristic revival process. After commenting on the need for maintaining and even increasing the liquidity of the economy, the memorandum suggested a program involving (1) discontinuance of Reserve System transactions in Government securities except on a traditional orderly market basis and with firm maintenance of the System's portfolio of securities other than bills, (2) creation of some further margin of excess reserves in order to increase the liquidity of banks and other lenders and put them under pressure to seek out and finance ventures which have promise of success, and (3) a modest reduction in Reserve Bank discount rates.

During an extended discussion, Mr. Eccles said that while he felt the memorandum implied that credit policy had a greater influence on the economic situation than the facts warranted, a change from the restrictive policy followed during the inflationary period to one designed to make credit readily available was appropriate at

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this time as a means of creating a favorable climate for recovery. He felt that a change of policy should not attempt to stop readjustments in the price structure at this stage, but suggested that as a first step the approximately \$800 million of reserves which would be released by expiration on June 30, 1949, of the authority for supplemental reserve requirements should be permitted to have its full effect in the money market and that no additional reduction in reserve requirements should be made by the Board and no reduction made in discount rates of the Reserve Banks until there had been an opportunity to observe the effects of the \$800 million. In this connection, he suggested that consideration be given to issuance of a statement with respect to recent changes in the economic situation, expiration on June 30 of authority to require supplemental reserves and regulate consumer instalment credit, and to the need for a coordinated program of fiscal and monetary policy for dealing with deflation.

Chairman McCabe then read a draft of a statement which he said he had prepared with the thought that it might serve as a basis for discussion of an announcement of a change in policy at the meeting of the Federal Open Market Committee to be held this afternoon. There was an informal discussion of the draft at the conclusion of which it was approved in the following form for discussion at the meeting of the Federal Open Market Committee:

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The Federal Open Market Committee, after consultation with the Treasury, announced today adoption of a more flexible procedure in its open market operations in accordance with the changed requirements of the business and credit situation. Under present conditions it is undesirable to absorb reserves from the market at a time when the availability of credit should be increased. The Committee's policy of maintaining orderly conditions in the market and the confidence of investors in Government bonds will be continued.

Chairman McCabe asked for comments on the question whether, if a change of policy were announced, it would be desirable to amplify such an announcement with an additional explanatory statement to be issued jointly by himself and Secretary of the Treasury Snyder, and it was the view of the members of the Board that it would be preferable not to issue such a joint statement.

At this point Mr. Eccles withdrew from the meeting to keep another appointment.

At Chairman McCabe's request, Mr. Riefler then read the memorandum of June 27, 1949, on Management of the Bill Market under a Program of Credit Policy to Counteract Deflation. The memorandum outlined a procedure under which Reserve Bank holdings of bills would be allowed to run off, with enough excess reserves being fed out to the market to assure that System bill holdings would be taken up by banks and other investors.

Following the reading of this memorandum, there was a discussion whether action should be taken by the Board to reduce reserve requirements by an amount in addition to that which would take place

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through expiration on June 30 of the supplemental requirements, but no conclusion was reached and it was understood that the matter would be considered at a meeting after this afternoon's meeting of the Federal Open Market Committee.

At this point Messrs. Riefler, Vest, Leonard, and Young withdrew and the action stated with respect to each of the matters herein-after referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 27, 1949, were approved unanimously.

Letter to The United States National Bank of San Diego, San Diego, California, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of California, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmission through the Federal Reserve Bank of San Francisco.

Letter to Mr. O. V. Wilson, Deputy Commissioner of Banking,

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Charleston, West Virginia, reading as follows:

"This refers to your letter of June 7, 1949 enclosing an opinion of the Attorney General of the State of West Virginia with respect to the question whether a national bank located in another State may exercise certain trust functions in the State of West Virginia.

"Over a period of many years the Board has frequently expressed the opinion that a national bank which has received permission from the Board to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act may, without other authority, exercise the powers granted to it, not only in the State in which the bank is located, but also in any other State the laws of which do not expressly or by necessary implication prohibit the exercise of those powers by national banks located in other States. The Board has expressed the opinion, however, that in any such case the national bank would have to conform to those laws of any such other State in which it is acting which relate to the exercise of fiduciary powers by a foreign corporation. For your information, we are enclosing a copy of a ruling by the Board to this effect which was published in the Federal Reserve Bulletin for July, 1921 at page 816.

"The Board, therefore, is unable to agree with the opinion of the Attorney General of West Virginia that under Federal law a national bank located in another State cannot exercise trust functions in West Virginia or with the views expressed by the Supreme Court of Illinois in Boatmen's National Bank v. Hughes, 385 Ill. 431, 53 N.E. (2d) 403 (1944).

"It is noted that in his opinion the Attorney General of West Virginia states that the bank in question has not been expressly authorized to do a trust business in West Virginia and that he gives no opinion on the question of the power of this Board to license the bank to exercise trust powers in West Virginia. In this connection, it should be pointed out that the permits issued by the Board authorizing national banks to exercise trust powers do not purport to limit, and are not intended to limit, the area in which such powers can be exercised by a bank to the State in which the bank is located.

"In the court opinion mentioned above emphasis is placed upon the words 'under the laws of the State in which the national bank is located' in the opening paragraph of section

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"11(k) of the Federal Reserve Act which reads as follows:

'To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.' (Underscoring supplied)

It is the Board's view that these words are merely a part of the description of the fiduciary capacities in which a national bank may be authorized to act, in addition to the eight fiduciary capacities specifically enumerated in the law, and that they do not in any way limit the area in which a national bank may exercise fiduciary powers.

"We are furnishing to the Federal Reserve Bank of Richmond for its information copies of your letter and its enclosure and of this reply; and it is suggested that, if you should have any further questions concerning this matter, you might communicate with that institution."

Approved unanimously.

Memorandum dated June 9, 1949, from the Senior Staff, reading as follows:

"Inasmuch as questions were raised during the consideration of the 1949 budget as to the adequacy of existing budgetary procedure, the important features of that procedure are restated in this memorandum and the staff unanimously recommends that the Board reaffirm the present procedure with the change recommended below.

"By direction of the Board, the various divisions follow a standard procedure in the preparation of their budgets and conform to instructions issued by the Budget Officer regarding the form and detail in which the budget is to be submitted. Each year such instructions are revised to incorporate any changes designed to make the procedure more effective or more informative to the Members of the Board. It has been the constant endeavor of the staff to meet the wishes of the Board in every respect.

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"The 1949 Master Budget was accompanied by a summary of principal items of the budget by Divisions, a statement of expenses by Divisions for a five-year period, a statement of expenses by account classifications for a ten-year period, a table showing number and aggregate basic salaries of Board personnel by Divisions for the last ten years, and individual Division budgets with appropriate explanatory exhibits. Such exhibits consisted of a list of personnel (including vacant positions) and related data, an explanation of substantial increase or decrease in estimated expenses of the division, and a comprehensive statement outlining any material increase or decrease of activities or change of functions which occurred during 1948 or that was expected to take place in 1949.

"Time of submission of Budget. In December 1946 the Board decided that the budget should be submitted to the Personnel Committee for consideration on December 1 of each year. When the 1949 budget was presented to the Personnel Committee on December 1, 1948, the pressure of work relating to the appointment of directors of Federal Reserve Banks and branches and other matters made it difficult for the Personnel Committee to devote the necessary time to the consideration of the budget, and at the meeting of the Personnel Committee on January 5, the staff was requested to look into the feasibility of submitting the budget and its consideration by the Board earlier in the year and to make a recommendation with respect thereto.

"Since a review of budget procedures and expenditures can be made by the Personnel Committee at any time, the staff recommends that in future the Personnel Committee undertake such a review beginning early in September of each year, such review to include a resurvey of budget procedures, an analysis of expenditures for the preceding calendar year in relation to budget estimates for that year and of expenditures for the first six months of the current year in relation to the budget for that year, discussion with division heads of any questions that might be raised with respect to the budgets or expenditures of the respective divisions, and the issuance of instructions to the Budget Officer and division heads with respect to the preparation of the budget for the coming calendar year.

"If such a review is undertaken the present procedure calling for the submission of the budget by December 1 could be continued and on the assumption that the budget will

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"continue to be submitted to the Personnel Committee (which the staff would recommend) rather than to a special budget committee, it is the recommendation of the staff that this arrangement be followed.

"At the May 1948 Conference of Chairmen of the Federal Reserve Banks the request was made that the Board make its appointments of Class C directors and directors of branches and its designations of Chairmen and Federal Reserve Agents and Deputy Chairmen earlier in the year so that the directors may know of the appointments and designations before the directors' meetings in December. It is understood to be the intention of the Personnel Committee to make its recommendations to the Board in time to comply with the Chairmen's request. That arrangement will fit into the procedures as recommended by this memorandum, since the survey of budget procedures and expenditures would be completed by the Personnel Committee in September, their recommendations to the Board with respect to the appointment of directors and designation of Chairmen and Federal Reserve Agents and Deputy Chairmen would be made in October and November, and the budget for the succeeding calendar year would be submitted to the Personnel Committee on December 1.

"Budget for Personal Services. The 1949 budget of the Board of \$3,358,000 consists of \$2,554,000 (76 per cent of the total) for personal services and \$804,000 for non-personal expenses. The size of the budget for personal services is determined primarily by the functions assigned to the staff by the Board and the Board has placed on the head of each division the responsibility for the maintenance of the necessary staff for those functions.

"The first step in the preparation of a division budget is the determination of the anticipated scope of the division's work during the coming budget year and the personnel necessary to perform it. This may call for consultation with other members of the staff and with the members of the Board to whom various subjects are assigned for primary consideration. Material changes in the specific functions or overall program of a division are submitted to the Board for approval in advance. If there is to be any change in a division activity calling for changes in division personnel the division head must determine, with such consultation with others as may be necessary, what those changes should be and the qualifications for and probable classifications of any new positions in the division called for by the changes.

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"Acceptance of the budget establishes the salary ranges within which the respective positions may be filled in accordance with the personnel procedure approved by the Board on December 3, 1948 which specifies that each appointment (including transfers from one division to another) shall be made only for the purpose of filling a vacancy or a new position authorized by the Board.

"This procedure assures that when the personal services budget of a division comes to the Budget Officer there has been a careful determination and justification by the division of the need for the salary expenditures proposed in the budget. Therefore, his job is one of seeing to it that the division budgets for personal services are prepared on a comparable basis so that their presentation to the Board can be in a uniform manner. It is not expected that he will make another check of the activities of the various divisions and the need for the number or quality of employees provided for in the budget, as that will have already been done.

"In arriving at the total of a division budget provision is made for existing vacancies, but no estimate is made of the amount that would reflect resignations and appointments to fill the resulting vacancies, salary increases, or salary lapses, as these changes largely offset each other and each change is approved by the Board during the year as an addition to or a deduction from the budget. That these changes largely offset each other is indicated by the fact that the net addition to the salary budget last year, including all general and administrative increases, overtime, etc., was only \$26,000 compared with a total salary budget of \$2,100,000.

"Budget for Non-personal Services. The amounts provided in the various division budgets for non-personal services are limitations (but not the only limitations) on the total that may be spent by a division during the year for non-personal services without further approval by the Board. The Budget Officer has authority to question any of the budget estimates to assure the amounts provided are actually needed, that the policies of the various divisions in requisitioning supplies and equipment are reasonably uniform, and that needless expense is avoided. In his capacity as Director of the Division of Administrative Services, the Budget Officer also has authority, by reason of his supervision of the procurement and fiscal functions, to question any proposed expenditure even though it is within the limits fixed by the budget. If necessary, any differences of opinion are discussed with the

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"appropriate member of the Board or with the Personnel Committee.

"The Budget Officer, in consultation with the appropriate members of the staff or the Board, also initiates the review and determination of changes in policies followed with respect to items in the non-personal budget, such, for example, as distribution and charges for Board publications, losses to be borne in the operation of the cafeteria, etc., and the amounts provided in the budget are affected by these determinations.

"The items in the non-personal budget for 1949, amounting to \$804,000 are as follows:

Traveling Expenses	\$185,000.
Telephone and Telegraph	71,000.
Printing and Binding	164,000.
Postage and Expressage	37,000.
Stationery and Supplies	31,000.
Furniture and Equipment, including rental	47,000.
Books and Subscriptions	15,000.
Heat, Light and Power	38,000.
Consumer Finance Surveys	138,000.
Cafeteria Losses	37,000.
Other Expenses	<u>41,000.</u>
Total Non-personal Budget	<u>\$804,000.</u>

"Under standing instructions of the Board, authorizations for travel by Board members and heads and assistant heads of divisions are approved by the Personnel Committee. Under the same instructions, all other authorizations are approved by the respective division heads. Monthly reports of such other authorizations are submitted to the Personnel Committee. Therefore, the amounts expended for travel are subject to the scrutiny of the Board and can be reduced or enlarged at any time by such changes in policy as the Board might wish to adopt.

"Expenditures for printing, binding, postage and expressage largely represent the cost of printing and mailing the Federal Reserve Bulletin, the Board's Annual Report, and other publications of the Board. The policy governing the distribution of the Board's publications and charges therefor is reviewed from time to time and budget estimates determined accordingly.

"Expenditures for consumer finance surveys are presented each year in advance for the specific approval of the Board.

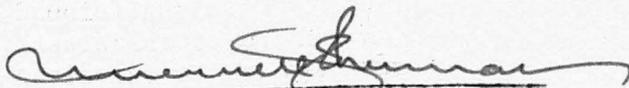
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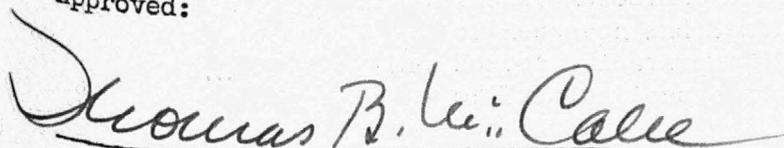
"The losses absorbed by the Board in the operation of the cafeteria are in accordance with the policies specifically approved by the Board.

"The remaining non-personal expenditures are largely routine in nature and are kept constantly under review."

Approved unanimously.

  
Assistant Secretary.

Approved:

  
Chairman.