

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 19, 1950. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board
 Mr. Thomas, Economic Adviser
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Bethea, Director, Division of Administrative Services
 Mr. Vest, General Counsel
 Mr. Nelson, Director, Division of Personnel Administration
 Mr. Myrick, Assistant Director, Division of Bank Operations
 Mr. Farrell, Technical Assistant, Division of Bank Operations
 Mr. Johnson, Technical Assistant, Division of Bank Operations

Before this meeting there had been sent to each member of the Board tabulations showing the annual expenses by functions of each Federal Reserve Bank and for all Federal Reserve Banks combined by years since 1936, and percentage comparisons of changes in such costs by five-year intervals.

Mr. Vardaman stated that since the meeting on December 15, 1949, at which it was agreed to hold this meeting for the purpose of discussing the 1950 budgets of the Board and of the Federal Reserve Banks, he had had a series of meetings with Mr. Leonard and members

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of the Division of Bank Operations to consider the 1950 budgets of the Federal Reserve Banks and trends of expenses in recent years. He then called upon Mr. Leonard who presented the tabulations referred to and discussed their content by functions.

There followed an extensive discussion of the material presented in the tabulations. In connection with a discussion of the currency and coin function, question was raised as to why only nine of the twelve Federal Reserve banks were providing wrapped coin service and why such service was not rendered free of charge by all Federal Reserve Banks to their member banks which were not in position to do the work themselves.

Following the discussion, it was agreed unanimously that the matter should be placed upon the agenda for consideration at the next Presidents' Conference.

Reference was made to the discussions during the past few years of the desirability of giving immediate credit for checks collected by the Federal Reserve Banks, and to changes in the situation within the past year or two which would suggest that further consideration be given at this time to additional steps in the direction of granting immediate credit.

Following a discussion, upon motion by Mr. Vardaman, it was agreed unanimously that this matter should also be placed upon the agenda for consideration at the next Presidents' Conference.

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In connection with a discussion of the growth in costs of the accounting function at the Federal Reserve Banks, Chairman McCabe raised a question concerning the results of the survey of Federal Reserve Bank accounting procedures made by Mr. Grady of Price, Waterhouse & Co. pursuant to the authorization of the Board on September 30, 1949.

Mr. Leonard stated that the report submitted by Price, Waterhouse & Co. under date of December 12, 1949, had been sent to Mr. Davis, Chairman of the Presidents' Conference, and that it was to be discussed at a meeting of the Presidents' Conference Subcommittee on Accounting to be held in New York on Tuesday, January 24, 1950.

Following a discussion, upon motion by Mr. Vardaman, Mr. Leonard was authorized unanimously to request the services of Mr. Grady for consultation in connection with the report submitted by Price, Waterhouse & Co. including, if it seemed desirable, a request that Mr. Grady meet with the Accounting Committee of the Presidents' Conference and with the Presidents' Conference for the purpose of discussing the report. In taking this action, it was understood that compensation to Price, Waterhouse & Co. for further services requested by Mr. Leonard would be paid on the same basis as approved for the original survey, and that the appropriate item of the budget of the Division of Bank Operations would be increased by the amount necessary to cover these payments.

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The meeting then recessed and reconvened at 2:45 p.m. with the same attendance as at the end of the morning session except that Mr. Young, Director of the Division of Research and Statistics, was present and Mr. Thomas was not.

There was a further discussion of the accounting function and of the planning activities carried on at some of the Federal Reserve Banks. Mr. Eccles suggested that if planning was worth while at some of the Banks it would seem desirable that it be part of the program at each Reserve Bank and that there be a System committee on which each Federal Reserve Bank was represented for the purpose of helping the Banks to exchange ideas as to ways and means of improving operations. This suggestion was discussed but no action was taken.

During the consideration of the 1950 budgets of the Reserve Banks for the examination function, Mr. Sloan, Assistant Director, Division of Examinations, and Mr. Goodman, Federal Reserve Examiner, Division of Examinations, entered the meeting.

Comparisons were made between the salaries of the officers in charge of examinations in the Federal Reserve Banks and the chief national bank examiners in the various Federal Reserve districts, and the opinion was expressed that because of the duties of these officers their salaries should be somewhat higher than the chief national bank examiners.

At this point Mr. Szymczak left the meeting to attend a

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meeting of the National Advisory Council.

Mr. Eccles called attention to the very substantial increase in the overall expenses of the Federal Reserve Banks (after reimbursement for fiscal agency expenses) since 1945 from \$45 million to \$80 million or approximately 77 per cent, and Mr. Leonard outlined the reasons for this increase. It was also pointed out that during the same period the Board's expenses had increased approximately 72 per cent.

Chairman McCabe suggested that, while the Federal Reserve Banks were efficiently operated, it would be helpful if a formula could be devised to which the budgets for the different functions at the Federal Reserve Banks would be related. There was a discussion of the consideration that had been given to this point in recent years and Mr. Vardaman stated that "noncontrollable" expenses, such as check collection, currency and coin, and other activities which are largely determined by the volume of work received by the Federal Reserve Banks, were being carefully checked through the functional expense studies that were being made but that it had not been possible to devise a satisfactory formula for the "controllable" functions, such as research and statistics, bank examination, bank and public relations, and personnel.

Mr. Eccles stated that because of the very substantial increase in prices and salaries since the war there were reasons for the

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increased budgets at the Federal Reserve Banks but since it was not anticipated that there would be further general increases in either salaries or prices there should be little if any further increases in the Reserve Bank budgets unless new functions were undertaken or the services rendered to member banks were increased. Although he thought the budgets proposed by the Reserve Banks for 1950 were satisfactory and should be accepted by the Board, he also felt that the attention of the Banks should be called to the large increases that had taken place since 1945 and that in the absence of an expansion of activities it was the feeling of the Board that further increases in overall budget expenses would not be justified.

Chairman McCabe suggested the desirability of sending a letter to the Chairmen of the Reserve Banks calling attention to the increases in the budgets and proposing that a System committee be appointed, which would take the place of the committee appointed by the Chairmen's Conference, and which might include in its membership the Chairmen of two Federal Reserve Banks and the Presidents of two other Banks, to make recommendations on the problems being confronted by the Federal Reserve Banks and the Board in the administration of the Banks' budgets. The further suggestion was made that if such a committee were appointed it might be given the services of an outside expert on a temporary full time basis to do the necessary background work on which the committee's studies and recommendations would be based.

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There was unanimous agreement with these suggestions and Mr. Leonard was requested to prepare a draft of letter to the Chairmen of the Federal Reserve Banks for consideration by the Board along the lines of the suggestions.

There followed an informal discussion of the legislation now before Congress to amend the Federal deposit insurance law and to provide housing for middle income groups and Chairman McCabe outlined for the information of the Board his current views as to how the statement that he had been requested to make to the Senate Banking and Currency Committee with respect to the legislation on deposit insurance should be handled.

At this point Messrs. Leonard, Bethea, Vest, Nelson, Young, Sloan, Myrick, Goodman, Farrell, and Johnson 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 January 18, 1950, were approved unanimously.

Letter to the Citizens National Bank of Boone, Boone, Iowa, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as registrar of stocks and bonds, guardian of estates, assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are per-

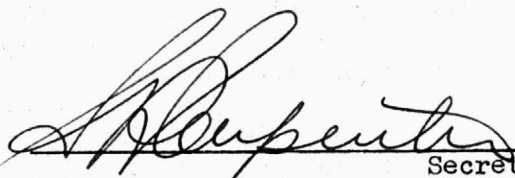
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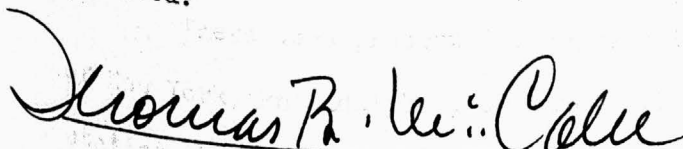
"mitted to act under the laws of the State of Iowa. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, and committee of estates of lunatics, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of 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 Chicago.


Secretary.

Approved:


Chairman.