

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 Wednesday, March 1, 1950, at 2:35 p.m.

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

Mr. Carpenter, Secretary
Mr. Riefler, Assistant to the Chairman

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. Frederick L. Deming, Secretary of the Presidents' Conference.

Mr. Davis stated that at the separate meeting of the Presidents' Conference on Monday, February 27, 1950, Mr. Peyton was elected Chairman and Mr. Leach Vice Chairman of the Presidents' Conference for the coming year.

Before this meeting the members of the Board had received copies of a memorandum of the topics which the Presidents wished to discuss with the Board. The topics and the discussion in connection with each of them were as follows:

1. Price, Waterhouse & Co. review of functional expense and other accounting reports made by the Federal Reserve Banks to the Board of Governors. The Presidents

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discussed the Price, Waterhouse & Co. report "Review of Reporting Manual", dated December 12, 1949 and the report of the Committee on Accounting, dated January 27, 1950, presented by the Committee on Operations with respect to it. In general, the Presidents approved, with minor changes, the Committee on Accounting recommendations. On the two points on which there had been differing views in the Committee on Accounting the Conference took the following action:

On suggestion 1, that the functional distribution of expense be limited to direct salaries of employees only, the Presidents approved the majority opinion of the Committee on Accounting which agreed with this Price, Waterhouse suggestion.

On suggestion 5, that the present requirement that daily time records be maintained by each employee whose time is devoted to more than one unit be eliminated from the manual, the Presidents approved the minority opinion of the Committee on Accounting, feeling that this question should be left to the individual bank management.

The Conference recommended that the Board follow up with the Treasury the possibility of simplifying the reimbursable expense arrangements, concurring in the statement of the Committee on Accounting that the suggestion, if followed through to a successful conclusion, would be of great value to the banks and the Treasury in the reduction of expenses.

In amplification of the above statement, Mr. Leach said that the Presidents agreed that cost accounting was an efficient tool of management, but that there were differences of opinion as to ways in which simplification of accounting procedures could be effected without impairing the usefulness of the functional expense reports. He also said that

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nearly all of the Presidents agreed with the principal proposal of the Price, Waterhouse report, which would limit the distribution of expenses to employees' salaries only on the grounds that distribution of other items of expense was not necessary for an effective and reasonably satisfactory control of expenses. He added that the minutes of the separate meeting of the Presidents' Conference would contain the views of the Presidents on the other recommendations in the Price, Waterhouse report and that the Committee on Accounting of the Presidents' Conference would continue to be available to work with the Board's staff on the questions presented.

Chairman McCabe stated that the Board would be glad to study the action of the Presidents' Conference and would advise the Presidents of the Board's views as to the action that might be taken.

He also said that, in recent discussions of budgets, the Board was concerned about the continued upward trend in the expenses of the Federal Reserve Banks and the Board and felt that, in the absence of unforeseen developments, it might be difficult to justify further increases in expenses. He added that the Board planned to give this matter further intensive study, that it might be well if it were also discussed by the boards of directors of the Federal Reserve Banks, and that he would suggest that it be placed on the agenda for the next meeting of the Presidents' Conference for a full discussion by the Presidents and the Board.

Mr. Davis stated that the matter would be listed for the agenda

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for the next meeting of the Presidents' Conference.

2. Pending Legislation

A. Capital requirements for member banks. In discussion several of the Presidents stated that they would favor a stronger attempt to get action on this bill. They were of the opinion that support for the bill could be obtained from a number of bankers in the various districts. The Presidents agreed that it would be desirable to explore the basis of such opposition as there was to the bill, particularly from banking groups and from other Federal agencies, and to inform the Board that they are ready to obtain support for it within their respective districts.

Mr. Davis stated that the Presidents were very much interested in attempting to get action on this bill because of its importance from the standpoint of membership in the Federal Reserve System.

Mr. Sproul referred to recent actual or contemplated withdrawals from membership of banks in the Second Federal Reserve District because of the capital requirements for the establishment of branches. He expressed the opinion that although the bill was of great importance from the standpoint of maintaining good relations with member banks and of membership in the Federal Reserve System, it was pushed aside in each session of Congress by other legislation deemed to be more important and that a real effort should be made at this session of the Congress to get the bill enacted.

Chairman McCabe stated that last week he had luncheon with Senator Robertson at which he had discussed legislation of interest to the System and that subsequently the Senator introduced the bill to in-

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crease the limitation on the cost of Federal Reserve branch bank buildings, stating that he did not think it would be necessary to hold hearings on the bill. He did feel, Chairman McCabe said, that there should be hearings on the bill (S. 2494) relating to capital requirements for membership in the Federal Reserve System and for the establishment of branches by member banks, and that he would try to schedule the hearings as soon as possible. The Chairman added that he would keep in touch with Senator Robertson and that the Board would do what it could to get consideration of the bill at the earliest possible date.

There was a discussion of what the Federal Reserve Banks might do to get support for the legislation in their respective districts and also what might be done by the Board to see whether agreement could be reached on a bill by the interested parties in Washington.

Mr. Davis stated that the Presidents had decided that the Committee on Legislation of the Presidents' Conference should exercise leadership for the Presidents on any action that should be taken, in cooperation with the Board, on legislative matters.

B. Legislation to provide for the establishment of organizations to provide equity capital for small business.
The Presidents agreed to list this topic for discussion with the Board as they would like as much information as is available on it.

Messrs. McCabe and Riefler reviewed the recent developments in connection with proposals to give financial and other assistance to small business and the consideration which was being given to these proposals.

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Reference was made particularly to the O'Mahoney bill (S. 2975), the Maybank bill (S. 2943), and the Lucas bill (S. 2947), on which the Board had been requested by the Senate Committee on Banking and Currency to submit reports. Chairman McCabe stated that the Board had not made up its mind what its position would be with respect to these and other proposals and that up to the present time no reports had been submitted. He added that, while the Board had prepared a draft of report on the Maybank bill (S. 2943) for submission in connection with hearings which were scheduled to be held yesterday, the hearings had been postponed and the Board had not sent the report. He also said that it was not possible to say at the present time what the final outcome of the proposals would be but that the Board had not taken the initiative with respect to any proposal.

C. Legislation to amend the Federal Deposit Insurance Act. The Presidents would like to know whether the Board would like them to obtain commercial banking support in their respective districts for the System position on the provision for examination of State member banks by the Federal Deposit Insurance Corporation without written permission of the Board of Governors, in anticipation of an attempt to have this provision reinstated in the bill when it comes up for consideration by the Senate (or the House) as a whole.

Chairman McCabe reviewed developments on this matter since the introduction of bill S. 2822 on January 10, 1950. In the ensuing discussion, it was the consensus that any effort that might be made on the floor of the Senate to restore the proposal of the Federal Deposit

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Insurance Corporation that it be given authority to examine member banks without the consent of the Board of Governors would not be successful, but that, if the matter should come up in the House Banking and Currency Committee, action by the Board and the Federal Reserve Banks might be necessary in an effort to defeat such an amendment to the bill.

As a related question, Mr. Davis referred to the provision in the bill as reported by the Senate Committee which calls for payment by the Federal Deposit Insurance Corporation to the Federal Reserve Banks of some \$38 million of interest on capital which had been supplied to the Federal Deposit Insurance Corporation by the Federal Reserve Banks and which had been repaid by the Corporation to the Treasury. He said that it was the consensus of the Presidents that it would be more satisfactory if the bill could provide that this payment of interest be made to the Treasury rather than to the Federal Reserve Banks.

Chairman McCabe stated that this suggestion had not been presented in connection with the Senate consideration of the bill. The matter was discussed briefly but no conclusions were reached with respect to it.

3. Compensation of members of Executive Departments and Independent Agencies. Several of the Presidents reported that the Boards of Directors of their Banks had passed resolutions with respect to the question of compensation for members of the Board of Governors and the Presidents would like to discuss this question with the Board to determine what assistance they could render the Board in this field.

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Mr. Davis stated that two Federal Reserve Banks had adopted resolutions which had been given some circulation and that another Bank had adopted a resolution but had not sent it to members of Congress or otherwise.

Chairman McCabe stated that the Board appreciated the interest of the directors in passing resolutions of the kind referred to. He also said that there was some question as to the best course to pursue and whether there should be any action which might be regarded as an organized campaign. It was his suggestion that at this stage the resolutions adopted by the directors be not sent to members of the Senate or House. He added that the Executive Committee of the Chairmen's Conference were working on the matter and were arranging to call on Senator Maybank, and that if the Presidents desired to work with the Chairmen they might designate one or two of their number to work with the Executive Committee of the Chairmen's Conference so that there could be coordination of whatever effort was being made.

4. Attendance of officers in charge of branches at meetings of the Conference of Presidents. The Presidents are in general accord with suggestions to further develop the executive abilities of branch managers, but believe means other than attendance at the Conference of Presidents should be employed to this end. If attendance at the Conference of officers other than the Presidents were judged desirable it probably would be more feasible to have certain other senior officers at the head offices of the Federal Reserve Banks attend the meetings before branch managers were invited to the Conferences. It is the feeling of the Presidents that regular attendance of

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any officers other than the Presidents would change the character of the Conference and might cause it to lose some of its greatest benefits.

Mr. Davis said that the Presidents were in complete accord with the suggestion that the Federal Reserve Banks do whatever they could to develop the officers in charge of branches but, for the reasons stated above, they questioned whether attendance at the Presidents' Conference was the best way to accomplish that objective.

Chairman McCabe stated that he was impressed with the need for bringing the branch managers into closer contact with the important activities and problems of the System, that he had been impressed with the officers in charge at some of the branches, and that he believed it would be helpful if one or two of them could be invited to attend a Presidents' Conference as a special recognition and perhaps as an experiment to see how it worked. He felt that the Federal Reserve Banks were relying on the branch managers to do a very important job from the standpoint of public relations of the Federal Reserve System and that it would be helpful and that an invitation to one of their number to attend a Presidents' Conference would be one way of recognizing the importance of their responsibility.

Mr. Davis stated that the branch officers were being brought into meetings of the boards of directors and in other ways were being given closer contact with the System's problems. Chairman McCabe responded that he was groping for some way to give greater recognition to branch

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managers which would develop their potentialities for greater responsibility and that he felt the matter should be given careful consideration.

In a further discussion, it was suggested that arrangements might be made in connection with a Presidents' Conference to devote one day to a meeting of the Presidents and the managing officers from the branches of all of the Federal Reserve Banks. At the conclusion of the discussion, Chairman McCabe suggested that the Presidents give the matter further consideration to see what could be worked out to enable the branch managers more adequately to represent the System and to be in closer touch with its problems.

5. Wrapped coin service charges. This topic, listed for the Board's information on Conference action, rather than for discussion, was discussed at some length by the Presidents, and then referred to the Committee on Bank and Public Relations for study and report to a subsequent Conference. There is a wide difference of opinion among the Presidents on the advisability of furnishing wrapped coin free of charge.

It was evident from a discussion of the extent to which the Federal Reserve Banks now provide wrapped coin service, that there was a wide difference of opinion among the Presidents as to a desirable course to pursue.

Mr. Peyton suggested that, inasmuch as the matter had been referred to the Committee on Bank and Public Relations of the Presidents' Conference, further discussion of the subject be deferred until receipt of the Committee's report.

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6. Collection of checks - possibilities for expediting collection and reducing time of deferment. This topic was the subject of considerable discussion. Several of the Presidents felt that as a result of actions taken in the past two years to extend the areas in which two-day deferment schedules obtained, pressure to make two-day deferment the maximum schedule throughout the country for all of the Reserve Banks was very great and action to that end should be immediate. Others agreed that pressure was great but preferred to await (as a matter of organization procedure) the forthcoming report of the Special Collection Committee, which report will deal in part with deferment schedules. A majority of the Presidents approved a motion that the Conference inform the Board that the individual Reserve Banks are disposed to go immediately to a maximum of two days deferment time for the entire country.

It was stated that the Board concurred in the action of the Presidents' Conference on this matter with the understanding that the action contemplated that maximum deferment of two days would be made effective in all districts at the same time.

It was agreed that the Committee on Operations and the Board's staff should work out the necessary details to have the change effective in all districts as of the same date.

7. Savings bonds eligibility as collateral for loans. The Conference discussed the report of the Ad Hoc Committee appointed to study this question. The Presidents voted to go on record as opposed to making savings bonds eligible as collateral for loans.

Mr. Davis stated that this matter was discussed at the meeting of the Federal Open Market Committee this morning and that no further discussion was called for at this time.

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8. System obligation to the public and to the Administration to record its views on fiscal and monetary policies.

The Presidents discussed this topic at some length and expressed their concern about a number of recent developments which will influence the economic situation. The Presidents would like to discuss this subject further with the Board.

Mr. Sproul stated that this topic had been presented because there were developments in the economy which might call for decisions on monetary and credit policies which either run counter to the general policies of the Administration or to the demands of the general public. In that situation, he said, it might be necessary for the System as the nation's central bank to take a position which it regarded as consistent with sound monetary and credit policy and stability in the economy and assume any risks that might be inherent in that action rather than to take no action or say nothing and thereby appear to concur in an economic policy with which the System could not agree. An example of such a situation, he said, was the testimony of the Board on the proposed legislation on cooperative housing for middle income groups which the Presidents felt was entirely justified, well done, and effective.

During a discussion of this matter, Chairman McCabe stated that the Board had not gone out of its way to express opinions on bills or legislation which were not strictly within the province of the System, unless such opinions were requested, as was the case on the pending middle income housing bill. He reviewed the procedure followed in the preparation of the statement submitted by the Board on that bill, as well as

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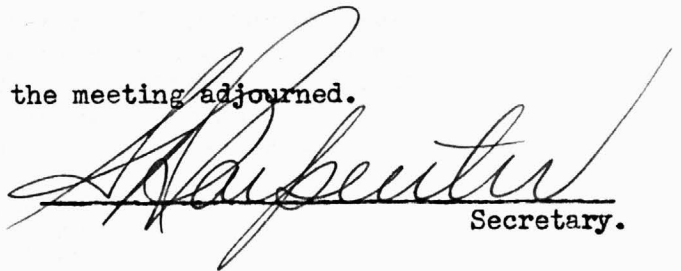
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the statement made by him at the hearings before the Senate Banking and Currency Committee today on the bank holding company bill. He said that he had sent copies of the drafts of statements to representatives of all of the interested agencies and had asked for their comments and that, while that procedure generally was not followed by other agencies, he was satisfied that it was having good results. He expressed the view that the opinions of the Board would be highly respected if it stated its position with force when that was necessary but with restraint particularly when the Board's views were requested on controversial matters.

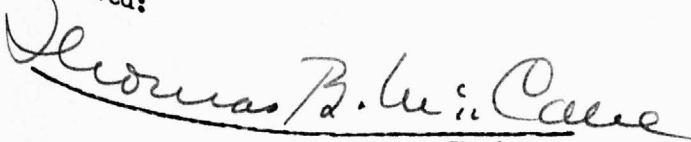
Mr. Eccles said he concurred fully in Chairman McCabe's statement, except that in connection with legislation which would affect the economy and with which the Board was not in agreement, it should, as an agent of the Congress, express its views to the appropriate committees of Congress without waiting for a request for those views.

At the conclusion of the discussion, Mr. Davis stated that the matter had been listed for discussion with the Board and that no action was called for at this time.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.