

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 7, 1950. The Board met in the Board Room at 3:30 p.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. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of
Personnel Administration

Mr. Szymczak referred to the discussion at the meeting of the Board on December 15, 1949, at which it was agreed that the Executive Committee of the Retirement System be advised (1) that the Board was still of the opinion that the arrangement with the Northern Trust Company should be terminated, and that the Retirement System should employ a qualified individual as an investment manager who would work under the direction of the Investment Committee, and (2) that the Board would accept temporarily the action taken at the meeting of the Executive Committee on December 14, 1949, but that it was requested that the committee make a thorough investigation of the feasibility and desirability of obtaining the services of a competent investment manager and submit a report thereon prior to the annual meeting of the Board of Trustees of the Retirement System in the spring of 1950, so that a final decision on the matter could be

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reached at that time. He also referred to the letter to Mr. Gilbert, Chairman of the Executive Committee dated January 13, 1950, concerning this matter and stated that a subcommittee appointed by Mr. Young, Chairman of the Investment Committee of the Retirement System, submitted a report under date of April 14, 1950, copies of which had been sent by Mr. Young to members of the Board, recommending in substance that no change be made in the present procedure of retaining the Northern Trust Company to act as investment adviser and manager of the fund. Mr. Szymczak added that the Investment Committee approved the report of the subcommittee and that at the request of himself and Mr. Draper, Messrs. Conkling, Masters, and Pawley of the Board's staff had reviewed the subcommittee report after which they submitted a memorandum dated May 31, 1950, in which they agreed with the general conclusions of the subcommittee. Mr. Szymczak went on to say that this raised the question of the position the Board should take in its discussion with the Presidents of the Federal Reserve Banks next week since the Board of Trustees of the Retirement System would hold its annual meeting on Wednesday afternoon, June 14.

During the ensuing discussion, Chairman McCabe said that, for reasons which he had previously stated, he still felt that an individual investment counsel would produce better results for the retirement system than a trust company, and that it would seem desirable to ask the Presidents of the Federal Reserve Banks to continue their study of the matter.

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There followed a discussion during which reference was made to the understanding at the meeting on April 29, 1949, at which several officers of the Federal Reserve Banks who were also officers of the Retirement System of the Federal Reserve Banks were present, and at which it was agreed that the present investment policy should be continued with changes in investments designed to increase the average earnings to a 3% level with the understanding that in the event the earnings on investments were not brought up to 3% by the end of 1950, there would be a determination of the policy which would justify a guarantee of retirement system benefits.

Chairman McCabe stated that since the matter of investment procedure was to be reviewed after the end of 1950, the question for discussion at this time was whether the Board should take serious objection to the report submitted by the subcommittee appointed by Mr. Young as Chairman of the Investment Committee. He suggested that in the circumstances, the Board bring forcibly to the attention of the Presidents of the Federal Reserve Banks, all of whom are trustees of the retirement system, at a meeting to be held next week before the meeting of the Board of Trustees of the Retirement System, the view that the members of the Board questioned whether the Presidents had given adequate consideration to the employment of an investment counselor, and that it would be desirable to continue the study of the matter with the view to discussing it again at a later meeting.

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Mr. Vardaman stated that he would be absent on vacation when the Board met with the Presidents of the Federal Reserve Banks next week, but that he would like to have the minutes show that he was opposed to continuation of the arrangement with the Northern Trust Company or any other trust company and favored the employment of an investment counselor along the lines suggested by Chairman McCabe.

It was agreed unanimously that at a meeting with the Presidents to be held next week prior to the meeting of the Board of Trustees of the Retirement System, Chairman McCabe would state the views of the Board substantially as follows:

"While the Board appreciates the thorough study given to this matter by the subcommittee appointed to study investment management procedure, it can not escape the feeling that the benefits that would come from an investment manager, who would operate under the direction of the Investment Committee and who would have access to competent investment counsel, would bring about more effective management of System Retirement funds. However, it is understood that the findings of the subcommittee study are concurred in by the Investment Committee of the Retirement System and perhaps by a majority of the Presidents. In these circumstances, the Board will raise no objection to the continuation of the existing procedure until the end of the current calendar year when it is expected that, in accordance with the earlier understanding, the whole question of retirement system investment policy (as distinguished from investment procedure) is to be reviewed.

"It is the experience of members of the Board that investment counsel are much more alert than corporate trustees to changes in economic conditions and trends which make changes in security holdings advisable and that they are in a position to increase income without departing from the principles that should govern the investment of funds of this kind. The Board real-

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"izes that such a procedure undoubtedly would require some additional work on the part of the Investment Committee, but it is believed that the additional benefits which would flow from the arrangement would more than compensate for the additional work involved.

"Accordingly, the Board suggests that this question be given further study and that the Retirement System between now and the last meeting of the Presidents Conference in 1950 undertake to study the experience of retirement, endowment, and similar funds in New York, Chicago, and other principal cities, for the purpose of developing further information which would make it possible definitely to determine whether the Board's view in this matter is correct."

At this point Mr. Myrick, Assistant Director, and Mr. Farrell, Technical Assistant, Division of Bank Operations, joined the meeting.

Before this meeting there had been sent to each member of the Board a copy of a memorandum from Mr. Farrell dated June 5, 1950 with respect to expenses of the Federal Reserve Banks. The memorandum referred to the Board's letter to the Chairmen and Presidents of all Federal Reserve Banks dated March 16, 1950, and to comments received from three of the Banks in connection with that letter, and contained a statement which at Chairman McCabe's request the Secretary read as follows:

"It may be of interest to note that, among general comments regarding our cost accounting procedure, the Price, Waterhouse report stated that the Board 'should stimulate cost consciousness and other means of assuring progress in the cost control field.' The report also contained the following specific observations:

'Since salaries are the predominant expense in the Federal Reserve System, the control of costs is principally a matter of determining that the banks obtain value in services commensurate with the compensation and other

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"employee benefits paid. It involves the evaluation of working methods. The nature and volume of the various service operations of the banks cause the design of these methods to have even more than their normal importance. It is our view that, in most circumstances, the study, design and development of working methods and procedures and other analysis of costs should be handled by an adequate staff placed at a level sufficiently high in the organization structure of the banks as to be independent of the various operating departments."

In discussing his views informally with the Committee on Accounting, Mr. Grady, of Price, Waterhouse and Company, stated that he thought the study of procedures and other analyses of costs should be a full-time job. He said that he would despair of having this work handled by a committee of officers with other duties."

Chairman McCabe referred to the suggestion contained in the Board's letter of March 16 that, as a part of the topic to be discussed at the next President's Conference, consideration be given to the advisability of appointing a System committee composed of representatives of the Chairmen's and Presidents' Conferences and the Board to study and submit a report on the problems involved in the budgetary control of expenses, with the understanding that such a committee might arrange for the service of outside consultants of their own selection. After stating the reasons why he felt it would be desirable to have such a committee appointed, Chairman McCabe suggested that at its meeting with the Presidents' Conference next week the Board renew the suggestion for such a committee and that it discuss fully with the Presidents the problem of effective control of expenses in the Federal Reserve System and how such control might best be attained.

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Following a discussion, Chairman McCabe's suggestion was approved unanimously with the understanding that he would make a statement substantially as follows:

"The Board would like to have a thorough discussion of this problem and to consider with the Presidents the desirability of appointing the committee suggested in our letter of March 16, 1950, with the thought that the committee would suggest for approval by the Board and the Federal Reserve Banks a procedure as to how the proposed study of the problems involved in an effective control of expenses would be conducted; that is, whether the committee should arrange for the services of outside consultants, whether a representative from each Federal Reserve Bank should be on the working group, etc. Whatever procedure is followed it should be one that will have the full support of everyone concerned so that there can be an effective solution of the problems that have been confronting the System."

Messrs. Myrick and Farrell withdrew from the meeting and Mr. Young, Director of the Division of Research and Statistics, joined the meeting at this point.

There was a brief discussion of the contents of a statement that might be presented by Chairman McCabe when he appeared before the Senate Banking and Currency Committee to testify in connection with the proposed Small Business Act of 1950, S. 3625 and H.R. 8565 and H.R. 8566, but no conclusions were reached and it was understood that the matter would be considered at a later meeting of the Board.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken

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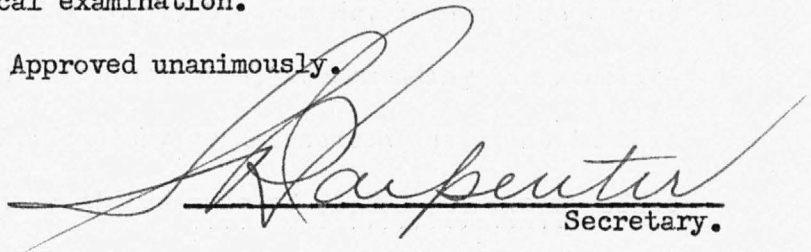
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by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 6, 1950, were approved unanimously.

Memorandum dated May 23, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Edward Marcus as an Economist in that Division, with basic salary at the rate of \$5,800 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.


Secretary.