

A meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held in Washington on Wednesday, September 27, 1950, at 2:30 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

Mr. Carpenter, Secretary

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. Van Nice, Secretary of the Presidents' Conference

Before this meeting there were distributed among the members of the Board of Governors and the Presidents copies of a memorandum of topics which the Presidents wished to discuss with the Board at this meeting. The topics and the discussion in connection with each are set forth below:

1. Integration of Retirement System benefits with those provided under the amended Social Security Act. The Conference of Presidents gave consideration to the draft of a report dated September 8, 1950, of the Retirement Committee of the Retirement System presenting a program for integration of Retirement System benefits with the benefits provided under the amended Social Security Act. The report was made to the Board of Trustees of the Retirement System and was presented to the Presidents as a matter of information for their discussion and suggestions.

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The Presidents expressed approval of the Retirement Committee's recommendations, as set forth in the report with the suggestion that the wording of the provision that

"members who attain age 65 during or subsequent to the month in which the new Social Security law was adopted and prior to July 1, 1952, be given the privilege (in the discretion of the employing banks) of remaining in active service until July 1, 1952, in order that they may qualify for Social Security benefits." (Pages 6 - 7)

be amended by striking the words "was adopted" and substituting therefor the words "becomes effective for Federal Reserve Bank employees (January 1, 1951)".

In suggesting this amendment the Presidents agreed that the retention past their regular retirement dates of employees who reach age 65 prior to January 1, 1951, in order to make them eligible for Social Security benefits (through covered employment for 18 months thereafter) was difficult of defense since at their regular dates of retirement these persons would have made no contributions to the Social Security System. It was felt, however, that there may be some special cases of merit where employees reaching age 65 before January 1, 1951, might, if agreeable to all concerned, be continued in employment in order to become eligible for Social Security benefits. The Conference arranged to have copies of the amended draft of the report sent to the members of the Board of Governors for their consideration prior to the joint meeting of the Board with the Presidents.

The Presidents suggest that a special meeting of the Trustees of the Retirement System to consider the Retirement Committee's recommendations be called at the first convenient date which probably would be at the time of the December meeting of the Conference. If possible, the Presidents would like to have the date of such a meeting set at the joint meeting. The Presidents would also like to discuss with the Board the desirability of preparing a booklet or some other means of communication through which Federal Reserve Bank employees might be informed of the implications of Social Security coverage and of the added benefits which will accrue to them.

Following a statement by Mr. Peyton in which he gave the back-

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ground for the action of the Presidents' Conference, Chairman McCabe stated that the recommendations of the Retirement Committee as approved by the Presidents would be given consideration by the Board of Governors and the Presidents advised in ample time for action on the matter by the Board of Trustees of the Retirement System at a meeting to be held before the end of the year. In this connection, Chairman Peyton inquired as to the date for the next meeting of the Presidents' Conference and the Board at which time it would be expected that the meeting of the Board of Trustees would be held. It was suggested that the date be determined at the end of the meeting of the Federal Open Market Committee to be held tomorrow.

There was general agreement that, if the recommendations of the Retirement Committee were put into effect, the preparation of a booklet fully and effectively explaining the plan of integration would be highly desirable.

2. Wartime protection of records. The Conference considered a report, dated August 9, 1950, of the Subcommittee on Destruction of Records to the Committee on Miscellaneous Operations which presented two alternative plans under which limited emergency operations might be carried on by, or in behalf of, a Federal Reserve Bank or branch whose premises might become unusable as a result of war damage. Although not recommending the activation of either plan at present, the Subcommittee made certain recommendations to be immediately adopted including selection by each Bank of rurally located storage space for vital Bank records, selection of personnel to catalog and control such records and to act in behalf of the Bank in emergency, a five-week trial period during which vital records in each Federal Reserve office would be reproduced, and the furnishing of

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such instructions by Banks to their branches as may be needed to enable the latter to perform on an emergency basis essential functions now performed only at the head offices.

In the Presidents' discussion of this report it was pointed out that the problem covered by the Subcommittee's report, i.e. a Security Files Program for the individual Reserve Banks, is part of a larger problem of setting up an integrated, nationwide plan of operation for the entire financial community in the event of war disaster. Such a plan would encompass not only the activities of the Federal Reserve System, but also those of the United States Treasury Department and of the commercial banking system. The Presidents agreed that there is need for such a plan, that it would be desirable to have one-man coordination of the efforts to set it up, and that the Federal Reserve System should lead the way in promoting such a program. The Presidents further agreed that Mr. Rounds of the New York Bank is well qualified to act as such a coordinator, and Mr. Rounds, who was present at the Conference meeting, indicated that he would accept the responsibility if called upon to do so. The Presidents recommend that the entire Federal Reserve System work together toward the objective set forth and they would welcome discussion of the subject with the members of the Board.

Chairman McCabe stated that the Board would be glad to give the matter consideration and advise the Presidents of its decision as promptly as possible.

Chairman Peyton inquired whether there was any objection to the individual Federal Reserve Banks proceeding with the suggested plans for protection of their own records which could be integrated into the broader program recommended by the Presidents if such a program should be put into effect. Chairman McCabe responded that there would be no objection to such a procedure. He also suggested that, as an essential part of a program to meet wartime emergencies, consideration

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should be given to providing emergency stocks of currency which could be used in the event of unavailability of the regular stocks at the Federal Reserve Banks.

3. Relations with correspondent banks. The Conference discussed the Federal Reserve System's relationships with the large correspondent banks and agreed that there is room for improvement in this respect. The Presidents believe that any constructive approach to improve such relations should be given consideration.

In this respect, attention was called particularly to a report made to the April, 1950, meeting of the Association of Reserve City Bankers by its Committee on Correspondent Bank Relations, concerning "the competitive activities of the Federal Reserve Banks as related to correspondent bank relations." Mr. Sproul said that this report had been analyzed by the Federal Reserve Bank of New York and that the analysis had been brought to the attention of the present chairman of the Reserve City Bankers' Committee on Correspondent Bank Relations. As a result a meeting of Federal Reserve Bank representatives and senior officers of correspondent banks in the New York area was held September 20 to discuss the items noted in the report.

The Presidents ask that this topic be placed on the agenda of the joint meeting of the Presidents and the Board since a full discussion of the subject seems particularly opportune at this time.

Chairman Peyton stated that the Presidents had no specific plan in mind for improving relations with correspondent banks but would like to discuss with the Board any ideas that might be helpful in building a better relationship.

At Mr. Davis' suggestion that Mr. Sproul report on what had been done by his Bank, the latter stated that, inasmuch as the apparent friction between the Federal Reserve System and the large correspondent

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banks was finding its principal expression in the Reserve City Bankers Association Committee on Correspondent Bank Relations, his Bank had analyzed the report submitted by the Chairman of that Committee at the last meeting of the Association and found that the criticisms contained therein had very little substance but were based largely on distrust of the motives of the System. In this situation, he said, it was thought that the best way to approach the problem was to confer with Mr. Perkins, the present Chairman of the Committee and a Vice President of the Chemical Bank and Trust Company of New York, to determine what, if anything, could be done to improve existing relationships. This conference, Mr. Sproul said, resulted in the suggestion of a meeting with the senior officers of the New York clearing house banks in charge of correspondent bank activities. He added that such a meeting was held last week at which time it was stated to the representatives of the banks that an analysis of the complaints that had been made showed that they had little substance and that the purpose of the meeting was to explore what was really behind the criticisms. Mr. Sproul went on to say that it appeared at the meeting that the principal difficulty was distrust of the motives of the System with respect to the correspondent banking system, that it was felt that the Federal Reserve was intent on destroying that system, and that if that question could be cleared up the remainder of the difficulties could be easily solved.



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Mr. Sproul made the further statement that in the discussion at the meeting he had made it plain that, if there were any thought that the System was not going to try to get all of the eligible State member banks that it could to join the System, there could be no basis for understanding with the correspondent banks since such membership would improve the effectiveness of the System and the banking system generally, but that if there were questions about the methods used by the Federal Reserve System in seeking increased membership those questions could be discussed. The second point which he emphasized, Mr. Sproul said, was that there had been suspicion of the Federal Reserve System even before it was established which had persisted through the years, that certain central banking functions exercised by the correspondent banks before the organization of the System had been given to the System, that it had the responsibility of exercising these functions under the law, and that it could not in any way compromise that situation. He said he told the group that if these two points were understood he thought the suspicion that had been built up over the years could be dispelled, and that whatever other grievances there were could be easily eliminated. As a result of that meeting, he said, he had been authorized to appoint a committee of officers of the Federal Reserve Bank to work with representatives of the clearinghouse banks to discuss specific points of complaint to see what could be done to dispose of them.

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Chairman McCabe expressed the opinion that the action taken by Mr. Sproul was a step in the right direction and that similar meetings might well be held in other districts in which there were members of the Reserve City Bankers Association Committee on Correspondent Bank Relations. Mr. Sproul commented that Mr. Perkins had expressed the hope that the Federal Reserve Banks in all districts would hold meetings with heads of correspondent banks for a frank airing of the whole matter to see if in that manner improved relationships could be achieved.

Chairman McCabe stated that it might be desirable to take the matter up with the officers of the Reserve City Bankers Association to see if something could be accomplished at that level also. This suggestion was discussed and it was felt that it might be helpful in removing some of the existing distrust and suspicion.

Mr. Vardaman referred to the meetings which he and other representatives of the Board had with the Committee on Correspondent Relations in January 1948, at which time he stated that the System was headed toward immediate credit on cash items, that the Federal Reserve System had an obligation under the law to provide efficient check collection facilities, and that if the correspondent banks did not like that situation they should present the matter to the Congress.

Mr. Sproul questioned whether there were any irreconcilable differences between the System and the correspondent banks particu-



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larly if there could be an understanding on the two points to which he had referred. He felt that the approach to the problem should be based on how the banking functions of the country could be performed to give the best possible service and that if there were a particular job which the System was not required by law to perform and the function could be performed better by the correspondent banks than by the Reserve Banks the correspondent banks should handle it, but that if the Federal Reserve Banks could do a job more effectively then they should do it.

In response to Mr. Vardaman's comment, Mr. Sproul stated that he did not think that there was any understanding or commitment on the part of the System to move to immediate credit on cash items, that the System had decided to adopt a maximum deferment of two days, but that no commitment had been made beyond that point.

Mr. Eccles commented on the legislative history of the Federal Reserve Act as indicating the intent of Congress that the Federal Reserve Banks should assume the functions of the correspondent banks to a greater degree than had been done. He recognized that there were certain services that the correspondent banks, particularly in the money market, could perform more satisfactorily than the Federal Reserve Banks, that this would be the case even if all banks were members of the Federal Reserve System, and that this was demonstrated by the fact that banks which are now members maintain substantial

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relationships with correspondent banks. He felt that if membership in the Federal Reserve System was to be increased, the System would have to meet the competition of correspondent banks and that it was at that point that misunderstanding arose. In these circumstances, while he was not opposed to facing the issue and trying to resolve the difficulties and misunderstandings that had developed, he was not hopeful of the results.

There was a general discussion of the problem from the standpoint of the importance of membership in the Federal Reserve System to an effective banking system and the relationship of the problem to the check collection system. During this discussion, Mr. Williams stated that comment had been made by one Reserve City banker that the whole problem would be settled if the Federal Reserve Banks would make it clear that they were not interested in holding the excess reserves of member banks. The Presidents indicated that their Banks had never solicited deposits of member banks in excess of requirements and several stated that the only activity of the Federal Reserve Banks in this connection had been to suggest that their member banks withdraw such excess reserve deposits.

Mr. Davis questioned whether there was anything in the law or the legislative history of the Federal Reserve Act that required the Federal Reserve System to grant immediate credit on cash items. There was a general discussion of the original intent of the Federal

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Reserve Act on this point during which Mr. Powell referred to the meeting with the Federal Advisory Council next week at which there would be a discussion of the System's decision to reduce to two days the maximum deferment on cash items. He questioned the desirability of indicating in that discussion that the decision was part of a program which would eventually result in immediate credit for cash items. There was general agreement that there was no commitment at the present time to go beyond the two-day maximum deferment.

Mr. Vardaman inquired why the two-day maximum deferment had been adopted if it was not the intention of the System eventually to go to immediate credit. The principal response to this question was that the action had been taken to bring deferment schedules of the Reserve Banks into greater uniformity. It was pointed out that in the neighborhood of 72 per cent of the checks handled by the Federal Reserve System were being collected in two days and the adoption of a maximum deferment of two days would add comparatively little to the average volume of float.

Mr. Vardaman asked if it would be an accurate statement to say that the System would shorten availability schedules as rapidly as consistent with improvements in check collection systems. There was a discussion of this question but no answer was agreed upon.

During the discussion Chairman McCabe withdrew from the meeting.

4. Payment of the cost of Blue Cross benefits for families of employees of Federal Reserve Banks entering military services.

Mr. Peyton stated that, while this subject was not on the

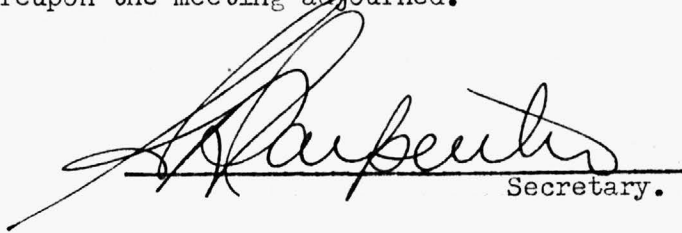
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agenda, it had been suggested that it would be desirable to discuss with the Board while the Presidents were in Washington the advisability of an arrangement under which at least part of the cost of continuing the Blue Cross benefits for the family of an employee of a Federal Reserve Bank while he was in the military service would be paid by the Bank. It was the consensus of the Presidents, Mr. Peyton said, that it would be desirable to amend the existing authorization to include this additional benefit and it was the opinion of the majority that the Federal Reserve Banks should be authorized to pay two-thirds of the cost.

Mr. Eccles stated that the Board would be glad to consider the matter and it was understood that for that purpose an excerpt from the minutes of the Presidents' Conference held in Boston on this subject would be supplied to the Board as promptly as possible.

Thereupon the meeting adjourned.

  
Secretary.