

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 22, 1950. The Board met in the Board Room at 10:05 a.m.

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

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

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, Kansas City, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 19, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and Kansas City on December 21, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Szymczak referred to the proposed budget covering expenses of the Board for the year 1951, a copy of which was submitted before this meeting to each member of the Board, and stated that the budget had been prepared on the basis of policies previously determined by the Board which affected the size of the staff required to carry out the activities contemplated by approved policies. He then read portions of a draft of memorandum which commented on expenditures during

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the year 1950 where they differed materially from the amounts budgeted for that year, and presented comparisons of the budget and expenditures for 1950 and the 1951 budget for both personal services and non-personal services. The memorandum also contained a statement with respect to changes in expenses of the Board since 1947 in comparison with expenses of the Federal Reserve Banks and other selected Government agencies.

Mr. Bethea, Director of the Division of Administrative Services, joined the meeting while Mr. Szymczak was reading the memorandum referred to above.

There followed a discussion of expenditures during 1950 and of the amounts in the proposed budget for 1951. During the discussion, Mr. Szymczak stated that although a number of vacancies were provided for in the 1951 budget, some of these had been filled since the budget was prepared, several more positions had been created and part of them filled, and some vacancies had occurred in other positions with the result that there remained at this time a net total of 36 vacancies.

Mr. Szymczak went on to say that the Personnel Committee recommended approval of the budget with the understanding that the 36 vacancies with total salaries of \$213,159 would be eliminated, that the total budget of \$4,073,002 would be reduced by that amount to \$3,859,843, that every reasonable effort would be made by the respective divisions to carry on their activities without filling these positions, and that any recommendation to fill one of the positions would be regarded as

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a recommendation for the creation of a new position and would be handled accordingly. This would mean that in accordance with established procedure any proposal for an appointment to one of the 36 positions would be accompanied by a full statement of the reasons and necessity therefor which, if agreed upon by the Division Head and the Director of Personnel, would be discussed with the member of the Board whose assignments included the activity involved (or the Personnel Committee if the proposed appointment could not be identified with any assignment). Upon approval by the Personnel Committee, the Secretary would be authorized to enter into the minutes approval of appointments in divisions of the staff of employees with salaries at rates up to \$4,950 per annum. In all other cases (including all appointments of members of the staff of the Board members' section), recommendations for appointments would continue to be submitted to the Personnel Committee and then to other members of the Board in accordance with the procedure approved by the Board on December 3, 1948.

Mr. Vardaman suggested that it also be understood that recommendations to fill any vacancies occurring after this date as a result of retirement, resignation, death, leave for military service, or for any other reason, be handled in the same manner.

In the ensuing discussion, the members present indicated agreement with the recommendation of the Personnel Committee and Mr.

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Vardaman's suggestion.

In this connection, Chairman McCabe suggested that consideration be given to the desirability of setting a maximum limitation on the number of persons that might be employed in any Office or Division of the Board with a view to having that limitation apply for the indefinite future. This, he said, might be a figure somewhat lower than the number of persons requested in the 1951 budget, and a determination should be made as to the relative importance of different parts of the work being done in the several divisions with a view to eliminating the less essential activities so that the divisions could operate with the number of persons that would be authorized and maintain high quality work.

This proposal was discussed and it was suggested that the Personnel Committee look into the matter and submit to the Board its recommendations not later than May 1, 1951.

Following the discussion, upon motion by Mr. Szymczak, the budget of the Board as set forth below was approved unanimously, with the understanding that (a) all recommendations for appointments to the staff would be handled in accordance with the procedure set forth above, (b) in authorizing specific expenditures under the budget for 1951, the members of the Board and the staff should carefully scrutinize all proposed expenditures to make sure that they were necessary and thoroughly justifiable, and (c) on or before May 1, 1951, the Personnel Committee would submit to the Board a

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recommendation as to limitations
on the number of persons that might
be employed in any Office or Division
of the staff:

"BUDGET

For the Year Ending December 31, 1951

PERSONAL SERVICES

Salaries	\$2,544,743
Retirement Contributions	<u>223,300</u>
Total Personal Services	\$2,768,043

NON-PERSONAL SERVICES

Traveling Expenses	258,750
Postage and Expressage	15,935
Telephone and Telegraph	98,600
Printing and Binding	175,300
Stationery and Supplies	36,850
Furniture and Equipment (Includes Rentals)	59,795
Books and Subscriptions	15,320
Heat, Light and Power	36,500
Repairs and Alterations (Building and Grounds)	31,300
Repairs and Maintenance (Furniture and Equipment)	9,670
Medical Services and Supplies	1,500
Insurance	4,610
Miscellaneous	347,670
Consumer Finances Surveys	225,250
Cafeteria (Net)	38,000
Legal and Consultant Fees and Expenses	30,000
All Other	54,420
Total Non-Personal Services	<u>\$1,091,800</u>
GRAND TOTAL	\$3,859,843

In connection with the discussion of the budget, Mr. Szymczak
suggested that because of the large volume of work coming before the

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Personnel Committee, the membership of that committee be increased to three persons so that in the absence of one member there would ordinarily be two members available to consider matters referred to the Committee.

Chairman McCabe suggested that Mr. Evans be appointed a member of the Personnel Committee with the understanding that Messrs. Szymczak and Norton would continue as members.

This suggestion was approved unanimously.

The following resolution levying an assessment on the 12 Federal Reserve Banks to cover the expenses of the Board for the first six months of 1951 as provided in the annual budget approved at this meeting was approved unanimously:

RESOLUTION LEVYING ASSESSMENT

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1951, it is necessary that a fund equal to two hundred and ninety-one thousandths of one per cent (.00291) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

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"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and ninety-one thousandths of one per cent (.00291) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business December 31, 1950.

(2) Such assessment, rounded to the nearest hundred dollars, shall be paid by each Federal Reserve Bank in two equal installments, the first on or before January 15, 1951, and the second on March 1, 1951.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Before this meeting the budgets of the Federal Reserve Banks for the year 1951 had been submitted to the Board with a memorandum dated December 13, 1950, from the Division of Bank Operations commenting on the budgets and recommending that the Board accept the 1951 budgets of the Federal Reserve Banks as submitted, and that, as in previous years, the President and the Chairman of each Federal Reserve Bank be furnished with a compendium of the budgetary data of all Banks and related memoranda prepared by the Board's staff. Mr. Norton stated that he would like additional time to review the budgets, and in the ensuing discussion reference was made to the budget studies

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being made by the special committee of which Mr. Coleman, Deputy Chairman of the Federal Reserve Bank of Chicago, is Chairman, and to the suggestion that had been made that an outstanding authority on budgets be engaged to make recommendations on the basis of the reports and comments submitted to the Coleman committee. It was understood that this suggestion would be discussed by the Secretary with Mr. Coleman.

At the conclusion of the discussion, upon motion by Mr. Norton, it was voted unanimously to advise the Federal Reserve Banks that the Board desired additional time to complete its consideration of the budgets, that this would be done as promptly as possible, and that in the meantime it would be understood that the Banks would operate under the respective budgets as submitted to the Board.

Reference was made to a memorandum dated December 22, 1950 from Messrs. Young and Noyes, stating that pursuant to provisions in the Defense Production Act of 1950 the Board's staff and the Housing and Home Finance Agency had developed a program for the assembly of necessary information with respect to construction activity, costs, and financing, part of which would be collected on a quarterly basis from lending institutions. The memorandum went on to say that the Housing and Home Finance Agency had submitted a request to the Bureau of the Budget for approximately \$870 thousand to cover the cost of this work including approximately \$200 thousand for the collection of information from lending institutions, that the information to be collected from

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lending institutions would normally be collected by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board, and that it was recommended that the Director of the Division of Research and Statistics be authorized to notify the Housing and Home Finance Agency and the Bureau of the Budget that the Board of Governors was prepared to undertake responsibility for collection of current information with respect to non-farm mortgage lending activity.

During a discussion of the memorandum, question was raised as to the increase in costs that might result at Federal Reserve Banks if collection of the data referred to were undertaken and it was understood that the matter would be considered again at a meeting after the first of next year.

Letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Your letter of December 13, 1950, advising of the action of the Board of Directors of your Bank in voting to increase the salary of President Erickson for the period January 1, 1951 to February 28, 1951, has been brought to the attention of the members of the Board.

"The Board appreciates very much the considerations which prompted your directors to take this action and realizes that the proposal has had careful consideration. However, for the reasons which have been brought out in connection with earlier discussions of the salaries of presidents and first vice presidents of the Federal Reserve Banks, the Board cannot escape the view that any change in existing policy with respect to the level of these salaries should be considered on

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"a System basis and only in connection with the annual review of salaries of officers at the Reserve Banks. In these circumstances, it would be the Board's suggestion that the proposed increase in Mr. Erickson's salary be deferred so that it can be considered at that time."

Approved unanimously.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 December 21, 1950, were approved unanimously.

Memorandum dated December 12, 1950, from Chairman McCabe, recommending an increase in the basic salary of Otto H. Branic, messenger in Chairman McCabe's office, from \$2,770 to \$2,850 per annum, effective December 24, 1950.

Approved unanimously.

Memorandum dated December 19, 1950, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending that the resignation of Miss Mary L. Siever, a clerk-typist in that Division, be accepted to be effective, in accordance with her request, at the close of business January 5, 1951.

Approved unanimously.

Memorandum dated December 22, 1950, from Mr. Thurston, Assistant to the Board, recommending an increase in the basic salary of Miss Margaret N. Muehlhaus, Secretary to Mr. Thurston, from \$4,325 to \$4,450 per annum, effective December 24, 1950.

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Approved unanimously.

Memoranda from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective December 24, 1950:

	<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
			<u>From</u>	<u>To</u>
Memo dated 12/14/50	Miss Eleanor Boylan	Editorial Clerk	\$2,970	\$3,115
Memo dated 12/15/50	Mrs. Eleanor Stockwell Frase	Economist	5,350	5,600

Approved unanimously.

Memorandum dated December 21, 1950, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending that Miss Anne Malia, Secretary to Mr. Sherman in the Office of the Secretary, be transferred to the Division of International Finance as a Secretary, with no change in her present basic salary of \$3,850 per annum, effective as of the date she enters upon the performance of her new duties. The memorandum also stated that Mr. Carpenter was agreeable to this transfer.

Approved unanimously.

Memorandum dated December 22, 1950, from Mr. Riefler, Assistant to the Chairman, recommending an increase in the basic salary of Miss Catherine L. Schmidt, Secretary to Mr. Riefler, from \$3,825 to \$4,200 per annum, effective December 24, 1950.

Approved unanimously.

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Letter to Mr. Olson, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This is to acknowledge receipt of your letter of December 13, 1950, enclosing a copy of a letter received by you from The First National Bank of Chicago regarding the recent amendment to the standard form of V-loan guarantee agreement and the need for greater protection of banks making V-loans than that provided by such amendment.

"As indicated at the V-loan conference here on December 11, 1950, the guaranteeing agencies and the Board appreciate the fact that this amendment to the form of guarantee agreement does not provide banks full protection against recovery by the Government on account of claims of the Government against the contractor in a particular case. However, we doubt that the guaranteeing agencies would be willing to admit liability under the agreement for more than the guaranteed percentage of the amount of the loan stated in the application for the guarantee where, as in the illustration cited in your letter, the Government may have paid to the bank as assignee an amount greater than the amount of the loan.

"It is our feeling that the only satisfactory solution to the problem can be provided by an amendment to the Assignment of Claims Act of 1940 and, as you know, the American Bankers Association has evinced an active interest in obtaining such an amendment. Since the problem is becoming increasingly serious as an impediment to the V-loan program, we are hopeful that the enactment of legislation by Congress on this subject may be obtained at an early date."

Approved unanimously.

Letter for the signature of the Chairman to Honorable J. Howard McGrath, Attorney General, Washington, D. C., reading as follows:

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"This will refer to my conversation of November 22nd with Mr. Peyton Ford regarding the complaint which was filed on November 10th in the United States District Court for the Southern District of California, Central Division, by K-F Distributors and others against the Board of Governors of the Federal Reserve System, the Attorney General and others, asking that Regulation W of the Board of Governors and Section 601 of the Defense Production Act of 1950 be declared unconstitutional and void.

"As you know, Regulation W was originally issued by the Board of Governors on August 21, 1941, and has been in effect continuously since that time, except for the periods November 1, 1947, to September 20, 1948, and June 30, 1949, to September 18, 1950. Consequently, we feel that it would be appropriate for us to handle this litigation designed to test the validity of the Regulation.

"In the circumstances, I wonder if it would not also be appropriate to appoint Mr. J. Leonard Townsend, the Board's Solicitor, a Special Assistant to the Attorney General to handle the matter. As yet there has been no service, but when service is had, Mr. Townsend would immediately move to dismiss the case as to the Attorney General and the United States Attorney in Los Angeles, who is also named as one of the defendants. At present it is not planned to move to dismiss the case as to the Board of Governors on the ground of improper venue, although this is a matter of tactics which will be decided after the Attorney General and the United States Attorney are no longer defendants.

"Your advice and suggestions regarding the matter will be greatly appreciated."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"The replies received from the Federal Reserve Banks in response to the Board's letter of November 27 with regard to the proposed revision of Regulation X have been most helpful to us in considering the many

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"questions that have arisen in connection with this matter. The Board's staff has been studying these questions and has prepared a revised draft of the regulation in the light of the Federal Reserve Bank replies and the additional study given the matter.

"We now enclose copies of a revised draft of Regulation X and are submitting it also to the Housing and Home Finance Agency, with whom we have, of course, been in close touch with regard to various aspects of this matter. It is our hope at present to be able to work out the provisions of the Supplement to the regulation, obtain the approval of the Housing and Home Finance Administrator, and issue the regulation in revised form as early in January as possible. If we are to meet this goal, we will need to consider before the end of next week any comments that the Federal Reserve Banks may wish to make. Accordingly, we hope that you will be able to review the enclosed redraft of the regulation and wire us not later than Thursday, December 28, any suggestions that you wish to make. We are sorry to have to ask for such prompt consideration of this matter, but it is most desirable to issue the regulation at the earliest possible date and we very much wish to have your assistance again in connection with this matter.

"For your information in considering the matter, we enclose a list of differences between the regulation as presently outstanding and this proposed redraft of the regulation. You will observe that hotels and similar structures are not covered by this redraft. It is hoped, however, that commercial property generally, including hotels, can be brought under the regulation as soon as practicable."

Approved unanimously.

Letter to Mr. D. J. Needham, General Counsel, The American Bankers Association, 719 15th Street, N. W., Washington 5, D. C., reading as follows:

"This is in reply to your letter of December 13, 1950, regarding the difficulties which have been encountered in the financing of defense con-

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"tracts because of the hesitancy of banks to make defense loans secured by assignments of claims under the Assignment of Claims Act without more adequate protection against recovery by the Government on account of renegotiation, price adjustment, or other claims of the Government against the contractor.

"The Board is aware of the importance of this problem, particularly insofar as it affects the successful administration of the current program of guaranteed loans for the financing of defense contractors. With acceleration of the defense production program it is likely that there will be a corresponding increased need for the financing of defense contracts; and the Board feels strongly that it is vitally important that an appropriate amendment to the Assignment of Claims Act of 1940 be enacted as promptly as possible for the purpose of protecting financing institutions lending to defense contractors on the security of assignments of claims from subsequent recovery by the Government on account of indebtednesses of such contractors to the United States.

"With respect to the form of such legislation, it is our understanding that the draft of a proposed amendment to the Assignment of Claims Act enclosed with your letter may be subject to objections in certain respects and may require modification in order to meet the views of various agencies of the Government. In an effort to obtain preliminary agreement among all concerned as to the form of the amendment, arrangements are now being made for an informal discussion of the matter between representatives of your Association, the Department of Defense, and the Board of Governors. In the circumstances we would not wish to offer any specific comment at this time with respect to the draft enclosed with your letter. It is hoped, however, that prompt agreement can be reached as to the language of the amendment and that the introduction and enactment of legislation on this subject can be obtained at an early date."

Approved unanimously.

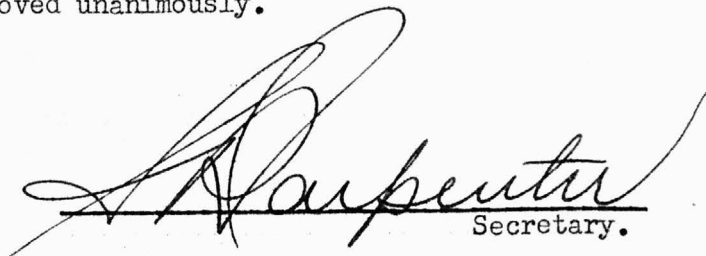
Letter to the Presidents of all Federal Reserve Banks,
reading as follows:

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"Enclosed for your information is a copy of a directive of the Department of Defense, dated December 8, 1950, on the subject 'Financial Policies and Procedures Applicable to Revenues from, and Expenses of, Guaranteed Loans'."

Approved unanimously.


Secretary.