

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 15, 1951. The Board met in the Special Library at 11:10 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
Mr. Norton  
Mr. Powell

Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Vest, General Counsel  
Mr. Townsend, Solicitor  
Mr. Young, Director, Division of Research and Statistics  
Mr. Noyes, Director, Division of Selective Credit Regulation  
Mr. Allen, Director, Division of Personnel Administration  
Mr. Horbett, Assistant Director, Division of Bank Operations  
Mr. Solomon, Assistant General Counsel

Before this meeting there had been sent to each member of the Board a draft of proposed letter to the Wage Stabilization Board requesting a ruling as to whether it would be permissible under the wage stabilization regulations for the Board and the Federal Reserve Banks to enter into a noncontributory group life insurance contract covering employees of the Board and the Federal Reserve Banks along the lines authorized at the meeting on July 16, 1951, together with a draft of letter to the Salary Stabilization Board requesting that that Board relinquish its jurisdiction in the matter in favor of the Wage Stabilization Board. Mr. Norton stated that members of the staff met with representatives of the Wage Stabilization

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Board last Thursday, October 11, to discuss the proposed arrangement for the group insurance policy with a view to ascertaining whether it would be permissible to complete the arrangement on the basis contemplated, and that representatives of the Wage Stabilization Board indicated that it probably would be possible to give a favorable ruling in the matter if it was submitted formally to that Board. In a further discussion with a representative of the Salary Stabilization Board, Mr. Norton said, it was suggested that that Board be requested to relinquish to the Wage Stabilization Board its jurisdiction over professional, executive, or administrative employees concerned. Mr. Norton went on to say that he would recommend approval of the letter to the Wage Stabilization Board, Washington, D. C. (Attention: Mr. D. S. Otis, Acting Director, Federal Agencies Division) reading as follows:

"In 1934 there was established a Retirement System of the Federal Reserve Banks covering the employees of the twelve Federal Reserve Banks and of the Board of Governors of the Federal Reserve System. This Retirement System is contributory in that the employees as well as the employer make contributions based upon actuarial computations, and the System is not insured or underwritten by any outside institution. The Retirement System covers all the approximately 18,000 Federal Reserve employees, except employees hired for temporary periods, special employees, and some employees of the Board of Governors who happen to be under civil service retirement rules. As a part of such retirement plan, in addition to providing retirement and disability benefits, the plan provides for an active service death benefit, payable to the beneficiary of an employee, in an amount equal to the basic salary of the member during his last twelve months of active service. This benefit is provided solely from contributions made by the

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"employer. As a result of favorable actuarial experience, the actuary for the System, Mr. George Buck, informally advised the officers of the Retirement System about two years ago that additional death benefits might be provided for Federal Reserve employees without increasing the rate of contribution made by the employer.

"Since that time various groups in the Federal Reserve System have been exploring the possibility of how best to utilize this saving for the benefit of employees. Various proposals were examined and it was finally decided that it would be preferable to obtain additional life insurance for the employees from a life insurance company through a group plan. The principal reason for following this procedure with respect to the insurance arises from the tax situation. Under the revenue laws, the beneficiary would be required to pay income tax on the full amount of the death benefit received under the Retirement System, but under a group life contract such a death benefit would not be taxable. The Federal Reserve System, therefore, entered into negotiations with insurance companies, and it has been determined that a group life policy providing insurance for Federal Reserve employees equal to the basic salary of such employee during the last twelve months of service, but in no event to exceed \$20,000 on any employee, could be obtained without any additional cost.

"At the present time the Board and the Banks contribute 8.83 per cent of payroll to the Retirement System, which, on the basis of the total payroll on February 28, 1951, the end of the latest fiscal year of the Retirement System, equaled an annual contribution of approximately \$5,197,000. Upon the taking effect of the proposed contract of group life insurance, this rate of contribution would be reduced to 7.61 per cent of payroll, or approximately \$4,499,000 per year, a saving of about \$698,000. The insurance company with whom the contract is being negotiated has quoted a gross premium of \$645,000 for the first year, which, as will be noted, is approximately \$53,000 less than the anticipated savings resulting from the adjustment in contribution rates mentioned above. As with other group insurance policies, a portion of this gross premium would be refunded on the basis of the actual loss experience. Hence the actual cost could be expected to be considerably less. The insurance company estimates that the average annual cost for the next five years, even if the mortality experience for the Federal Reserve were twice as unfavorable as for the last five years,

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"would not exceed \$348,000. Of the approximately \$698,000 saving in contribution, about \$367,000 represents the saving in the cost of the active service death benefit. It will thus be readily seen that the additional benefit can be provided without in any way increasing the contributions. Incidentally, the proposed contract of insurance would be renewable each year.

"Of the approximately 18,000 employees who would be affected by this plan, it is estimated that approximately 10 per cent would be considered as exempt employees under the Fair Labor Standards Act as executive, administrative, and professional. Also, the proposed plan would include some employees of the Board who are not at present covered by the same active service death benefit as mentioned above, in that their beneficiaries receive annuities, as provided in the Civil Service retirement plan, rather than lump sum payments. It is important, of course, that all of these employees be treated alike under the proposed insurance plan.

"From our study of the regulations and interpretations of the Wage Stabilization Board it is our understanding that this proposed insurance would be permissible under the Wage Stabilization regulations. However, in order to be doubly sure that our understanding is correct, we would appreciate it if you would advise us regarding the matter.

"Negotiations with the insurance company are ready for completion and it is hoped that your Board will be able to give us a prompt ruling. If there is any further information that you desire in your consideration of this question, we will be glad to furnish it promptly."

Approved unanimously, with the understanding that a copy would be sent to the Salary Stabilization Board, Washington, D. C., with a letter reading as follows:

"Enclosed is a copy of a letter we have addressed to the Wage Stabilization Board with respect to a proposed plan for group life insurance covering officers and employees of the Federal Reserve System. We estimate that approximately 10 per cent of the officers and employees affected by such plan fall within the category of professional, executive or administrative employees under the Fair Labor Standards Act and, therefore, pursuant to a suggestion made

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"by a representative of your staff, it is requested that your Board relinquish your jurisdiction of the matter in favor of the Wage Stabilization Board."

Reference was made to a memorandum dated October 3, 1951, from the Division of Research and Statistics, copies of which had been sent to the members of the Board prior to this meeting, recommending that the Board authorize the appointment on a contractual, temporary consulting basis of five to six qualified persons to assist in perfecting the final draft of replies to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control, of which Representative Patman, of Texas, is Chairman. The memorandum, which stated that the specific functions of the advisory group would be to review revised staff draft and to advise on the focus and adequacy of draft answers, contained a list of names of persons who might be considered for appointment and attached statements providing background sketches of each. It recommended also that the Board employ the consulting services of a qualified political scientist to assist the staff in the preparation of material relating to the place of the Board in the Federal Government structure.

The memorandum estimated the amount of time required of the advisory consultants at from 15 to 25 working days each, except that the political scientist might be required for from 20 to 30 days. It stated that the consultants would receive a fee of \$50 per day for each day worked for the Board, plus a per diem in lieu of subsistence of \$15 for

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all time in a travel status in connection with the assignment and, in addition, actual necessary cost of transportation to and from Washington. It further estimated that the cost to the Board would not be in excess of \$10,000, of which one-half could be provided from the 1951 budget of the Division of Research and Statistics; and recommended that, if the proposal were approved, the Board authorize an increase of \$5,000 in the consultants' fund in the 1951 budget of the Division.

Chairman Martin said that it was important to proceed as rapidly as possible with the preparation in final form of the answers to the questionnaire and that he felt the appointment of a group of consultants as suggested in the memorandum would be very helpful in accomplishing this. He also said that he had discussed the proposed advisory group with Mr. Vardaman, who had suggested that Mr. Raymond J. Saulnier be included among those retained as consultants.

Mr. Powell said that he had reviewed some of the first drafts of answers to the questionnaire and felt that in view of the quality of the drafts prepared by the Board's staff, it would be possible to complete entirely satisfactory answers without the services of outside consultants, but that because of the importance of the inquiry, he had reached the conclusion that it would be administratively desirable to secure the benefit of the experience of consultants such as those suggested, several of whom had had long experience in the field and some of whom had not been connected with the Federal Reserve System. He also mentioned that it had

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occurred to him that it might be desirable to retain a qualified commercial bank economist as one of the consultants and added the suggestion that final selection of the individuals be left to Chairman Martin and Mr. Young.

Chairman Martin said he would be glad to consider Mr. Powell's suggestion for inclusion of a commercial bank economist and went on to say that it should be clearly understood that the consultants would be used as an advisory body, and that the direction of the project should remain completely in the hands of the Board's staff. He also stated that he recognized that there might be some criticism of the employment of consultants from outside the System, but that the Secretary of the Treasury was following this procedure in preparing answers to the questionnaire which the subcommittee had addressed to him, and he (Chairman Martin) felt the risk of criticism was one which would have to be taken in order to obtain the most competent advice available.

Thereupon, the recommendations in the October 3, 1951 memorandum were approved unanimously with the understanding that Chairman Martin and Mr. Young would select the individuals to be appointed as consultants in the light of the discussion at this meeting and with the further understanding that no more than ten consultants, including one political scientist, would be appointed.

There was presented a memorandum dated October 10, 1951, from the Personnel Committee recommending that the following be appointed directors of the Reserve Bank branches indicated for three-year terms

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each beginning January 1, 1952:

<u>Branch</u>	<u>Name and Business Affiliation</u>
Charlotte Branch Federal Reserve Bank of Richmond	Paul T. Taylor, Taylor Warehouses, Winston-Salem, North Carolina
Memphis Branch, Federal Reserve Bank of St. Louis	Caffey Robertson, President, Caffey Robertson Company, Memphis, Tennessee
Little Rock Branch, Federal Reserve Bank of St. Louis	Shuford R. Nichols, Farmer, merchant, ginner, and cotton broker Des Arc, Arkansas

Upon motion by Mr. Norton,  
it was voted unanimously to appoint  
the persons named above as directors  
of the Reserve Bank branches indicated  
for three-year terms each beginning  
January 1, 1952, if it were ascertained  
that they would accept appointment if  
tendered.

Reference was made to the discussion at the meeting of the Reserve  
Bank Presidents and the Board on October 4, 1951 regarding current short-  
ages of coins of various denominations, and Chairman Martin stated that  
there appeared to be nothing to add to the discussion at the joint meet-  
ing, it being understood that the Board's staff would keep in close touch  
with the Treasury Department concerning the situation.

Chairman Martin also expressed the opinion that there was nothing  
further to be added at this time to the discussion at the meeting with  
the Presidents of Section 13b loans in the present credit situation and  
the extent to which they can and should be used either as a part of the

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V-loan program or without such guarantees.

With reference to the enforcement programs under Regulation W, Consumer Credit, and Regulation X, Real Estate Credit, Mr. Norton suggested that further consideration of the suggestions made by the Reserve Bank Presidents at the joint meeting be deferred until Mr. Evans, the member of the Board having the assignment for consumer credit matters, returned from Europe early in December.

This suggestion was approved  
unanimously.

With regard to the discussion at the meeting with the Presidents of executive training and development programs, Mr. Norton referred to training programs for Board personnel on which the Personnel Committee was working in cooperation with the Division of Personnel Administration, and also to programs being expanded at several of the Reserve Banks, including Atlanta and New York. He noted that these programs appeared to be geared mostly to the fulfillment of current personnel requirements, and stated that in his opinion the System should consider a broad program to encourage a high type of personnel to come with the Board and the Reserve Banks for training for top-ranking positions in the future. Mr. Norton also commented that he had discussed the matter with Mr. Fleming, member of the Federal Advisory Council from the Fifth Federal Reserve District, who had indicated a need for developing larger numbers of qualified personnel in commercial banks and had expressed an interest

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in the type of program which might be developed by the System. The Personnel Committee would continue to study the problem, Mr. Norton said, and expected to bring specific recommendations to the Board at an early date.

Consideration was given to a question raised by the Reserve Bank Presidents at the joint meeting regarding the Board's views as to continuation of existing group life insurance policies after the effective date of the proposed noncontributory group insurance plan. Mr. Allen stated that group insurance contracts were now in effect at eight Reserve Banks and at the Board, that at at least four of the Banks it had been necessary for the employers to pay part of the cost of the insurance because of poor experience or inadequate participation or both, and that in view of the substantial outlays which the Reserve Banks would make under the proposed noncontributory policy he would recommend that a letter be sent to the Banks advising them that the Board would not feel justified in approving any further subsidization of existing policies when the new noncontributory coverage became effective. He added that this would leave to the Reserve Banks the question whether any of the existing plans could be continued on a basis whereby the employer assumed no liability for payment of any of the costs, although he expressed doubt that it would be possible to obtain group insurance contracts without participation by the employer, which would mean in effect that the proposed letter to the Reserve Banks would result in cancellation of most,

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if not all, existing policies after the noncontributory plan became effective.

In discussion it was brought out that in some States there is a limitation in group policies of \$20,000 on the life of any one person, and that care should be exercised not to conflict with such statutes if any Reserve Bank or group of Reserve Bank employees were to continue group policies similar to those now in effect.

After discussion, Mr. Allen was requested to prepare and submit for the consideration of the Board a draft of letter to all Reserve Bank Presidents advising them along the lines discussed at this meeting.

In commenting on the suggestion by the Presidents' Conference that a meeting of bank supervisory agency representatives and others be called to discuss the problems of bank defalcations, Mr. Powell suggested that inasmuch as all three Federal bank supervisory agencies were concerned with the problem, it might be desirable to discuss the calling of a conference or other possible actions on a joint basis with the directors of the Federal Deposit Insurance Corporation and the Comptroller of the Currency. He also suggested that others who might be brought into the discussion would include representatives of the Reserve Banks, representatives of the National Association of Bank Auditors and Comptrollers, and authorities in the field of bank defalcations such as Lester Pratt, C.P.A.

Mr. Sherman stated that Mr. Sloan, Director of the Division of Examinations, who was in Cleveland today, had discussed this question

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informally with Reserve Bank officers in charge of bank examinations during the recent meeting of the National Association of Supervisors of State Banks in St. Louis, and that he (Mr. Sloan) expected shortly to receive their further comments concerning a meeting such as that proposed.

It was agreed that Mr. Powell should study the matter further and submit a recommendation to the Board.

Reference was then made to the taxation of banks, particularly as related to their ability to improve their capital positions out of earnings and to attract new capital funds, which topic had been discussed at the meeting with the Presidents with the understanding that the Board would consider whether a study should be made. Chairman Martin said that Mr. Daniel W. Bell, President of the American Security and Trust Company, Washington, D. C., had talked with him concerning the position of commercial banks under the excess profits tax and steps which might be taken to bring the problem to the attention of Congress, and had wanted to know whether the Board would object if a group of banks, constituting a committee of the American Bankers Association, retained Vice President Donald S. Thompson of the Federal Reserve Bank of Cleveland to make a factual study of the matter.

There followed a discussion during which members of the Board present expressed the opinion that a study should be made in view of the System's interest in the adequacy of bank capital, but that perhaps a

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study somewhat broader than that suggested by Mr. Bell should be undertaken, and if so it probably should be made within the System. It was also suggested that the study might be carried out by the National Bureau of Economic Research with the support of the Board, the Reserve Banks, and other Federal bank supervisory agencies as well as commercial banks.

At the conclusion of the discussion it was suggested by Chairman Martin that the staff study the matter and submit a recommendation to the Board.

This suggestion was approved unanimously.

At this point all of the members of the staff with the exception of Messrs. 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 October 11, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 12, 1951, were approved and the actions recorded therein were ratified unanimously.

Letter to Mr. Clarke, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Thank you for your letter of October 4, 1951, advising that commencing September 26 Mr. Miroslav A. Kriz is to spend approximately two weeks on a part-time basis doing some drafting work for the Treasury Department.

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"The Board of Governors will interpose no objection to the arrangements which have been made by the Federal Reserve Bank as stated in your letter."

Approved unanimously.

Letter to Mr. Gentry, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of September 27, 1951, in which you advised that it appears expenses for your head office and branches will exceed the 1951 budget estimates in the amounts indicated.

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records."

Approved unanimously.

Letter to the Honorable Homer Ferguson, United States Senate, Washington, D. C., reading as follows:

"This refers to your note of October 6 which asked the Board to consider a proposal you had received from Mr. H. W. Lundy, Lundy Motor Sales, Inc., St. Johns, Michigan, for a further relaxation of Regulation W -- Consumer Credit. Mr. Lundy expresses the view that the regulation should provide a maximum maturity of 24 months for automobile instalment credit 'now that business has come to a virtual standstill...'

"The experience of automobile dealers naturally will vary at times in some parts of the country but for the country as a whole the record of recent months indicates that the trade is able to sell all of the new cars that can be produced with the materials now available. In fact, sales have exceeded production recently and dealers' inventories of new automobiles have declined.

"The Board feels that a further relaxation of Regulation W would not be in the public interest at this time. Instalment credit increased by 155 million dollars in August, 1951, or at an annual rate of about 1.9 billion, following the easing of terms on July 31 pursuant to the amendments to the Defense Production Act. With purchasing

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"power increasing as a result of the defense program, concurrently with cutbacks in production of automobiles and other consumer durable goods, relaxation of Regulation W at this time could add materially to the already serious inflation dangers that we face in this period of national emergency.

"We appreciate this opportunity to comment on Mr. Lundy's proposal."

Approved unanimously.

Letter to Mr. Stuart Bernstein, Mayer, Meyer, Austrian & Platt,  
231 South LaSalle Street, Chicago, Illinois, reading as follows:

"This refers to your letter of September 17, 1951, concerning Regulation W and the instalment rental of gas-fired water heaters by your client, Illinois Power Company, to its gas service subscribers. In addition to being the subject of earlier correspondence and discussion, this matter was last discussed with you on September 27 during your meeting in Washington with certain members of the Board's staff.

"On the basis particularly of your letter of September 17 and the discussion on September 27, it is understood that, beginning no later than the date of this letter, the Company will obtain for each new rental installation a minimum initial deposit of 10 per cent and, for the ensuing 36 months, equal monthly payments or deposits totaling in the aggregate the value of the installed heater. If the regulation should be changed to make the applicable terms stricter than 10 per cent and 36 months, the stricter terms would, of course, apply to any installations made after the change.

"It is also understood that the Company proposes as a reasonable method for computing the value to be used as a basis for such deposits or payments, the net cost of the appliance to the Company. Such value would exclude such costs as accounting burden, excise taxes, interest, maintenance expense, and installation and, therefore, would be less than the retail selling price of the appliance or comparable appliance. In any case such as this where a value lower than the usual retail cash or selling price is proposed by a Registrant as a basis for computing the initial deposit and the monthly payments, the

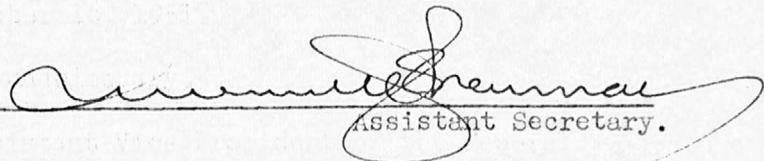
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"reasonableness of the method of determining such value, in order to assure that the amounts collected by the lessor will be sufficient to meet the requirements of the regulation, necessarily depends in large part on the fact that any payments received from the lessee after the 36 months do not reflect amounts which may properly be regarded as consideration for the use of the appliance or costs incurred by the lessor in connection therewith; and it is assumed that the arrangements of your Company are designed accordingly. It is further understood that no such rental shall involve any understanding or other arrangement pursuant to which title to the leased heater or any similar appliance may pass to the lessee, that there will be no increase in the cost to the lessee over the life of the rental, and that no cash will be paid to the lessee at any time prior to the termination of the rental transaction and the return to the Company of the leased appliance.

"Subject to the foregoing, the Company's plan of operation as reflected in your letter of September 17 and the subsequent discussion would not, in the Board's view, conflict with the requirements of the regulation. If there should be any further matters in this regard of interest to you or your client, we will be glad to discuss them with you at any time and consider them as promptly as possible."

Approved unanimously, with a  
copy to Mr. Olson, Vice President of  
the Federal Reserve Bank of Chicago.

  
Assistant Secretary.