Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 9, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Sherman, Assistant Secretary

Governor Evans referred to the rules governing operation of the private dining rooms as approved by the Board on April 12, 1946 and as modified at the meeting on September 11, 1951, stating that it was clear from the third paragraph of the list of persons whose luncheon checks may be charged to the Board that any member of the Board may charge to the Board's account the luncheon check of any official guest not listed in the preceding two paragraphs by placing on it the notation "official guest" and signing the check. He suggested that it would be desirable to send each member of the Board a revision of the rules which would incorporate both the action taken on April 12, 1946 and that taken on September 11, 1951 and which might include other minor clarifying statements.

In this connection, Governor Vardaman suggested that when members of the Board's staff were called upon to attend official luncheons, the cost of their luncheons should be borne by the Board rather than by the individual since, having been invited to attend, the individual might feel it a "command performance".

Governor Vardaman also expressed the view that, if an individual did not have some definite purpose in attending such luncheons officially, he should not be included in the list of those invited.

There was no indication of disagreement with Governor Evans' suggestion for issuance of a revised memorandum covering the rules for operation of the private dining rooms and it was understood that the question raised by Governor Vardaman would be placed on the agenda for consideration at a meeting when all members of the Board were present.

Mr. Leonard, Director of the Division of Bank Operations, entered the room at this point.

Before this meeting there had been circulated a draft of letter to Mr. Johns, President of the Federal Reserve Bank of St. Louis, concerning a proposed change in classification of member banks in the Eighth Federal Reserve District for the purpose of electing Class A and Class B directors. Governor Vardaman had requested that the letter be considered at a meeting of the Board and at this time he suggested that consideration be given to the procedure followed in grouping banks for the purpose of electing directors.

Mr. Leonard stated that the request of the St. Louis Bank arose as a result of a review which showed that the present grouping of banks in the St. Louis District had departed considerably from the formula suggested in the Board's letter of September 19, 1934 (X-8012). This formula provides that approximately one-third of the member banks in the district will be in Group 2 and that the number in Group 1 (the largest banks) will be as nearly as may be in the same ratio to the total number of banks in the district as is the combined capital and surplus of Group 3 banks (the smallest banks) to the capital and surplus of all banks in the district. Mr. Leonard described the effect of the changes proposed by the St. Louis Bank, stating that it would reduce the number of banks in Groups 1 and 2 and would increase considerably the number of banks in Group 3, and that the resulting classification would be substantially in agreement with the formula suggested in the Board's 1934 letter.

There followed a general discussion during which it was suggested that Governor Robertson review the existing formula with a view to submitting any changes which he felt would be desirable for the Board's consideration, but that no attempt be made to put such changes into effect until after the elections to be held this year had been completed. It was also suggested that inasmuch as the proposed changes in classification in the St. Louis District were in substantial conformance with the existing instructions of the Board, the letter to Mr. Johns be approved.

Thereupon, unanimous approval was given to a letter to Mr. Johns reading as follows:

"This refers to your letter of August 25, 1952, and your wire of September 2 concerning the proposed classification "of member banks in your district for purposes of electing Class A and Class B directors.

"The Board has considered the matter, and in accordance with your recommendation has changed the classification of member banks in the Eighth District for the purpose of electing Class A and Class B directors, as follows:

Group	Banks with Capital and Surplus of:
1	$700,000 and over
2	$200,000 and over but less than $700,000
3	Less than $200,000"

There was then presented a draft of letter to Mr. Joseph C. Duggan, Assistant Attorney General, Department of Justice, which would transmit comments of the Federal Reserve Banks on a proposed Monday Holiday Act, copies of which had been sent to the Reserve Banks under date of August 22, 1952 following receipt of a request from Mr. Duggan dated August 21 for the Board's comments. Mr. Duggan's communication stated that the proposed act had been submitted to the Council of State Governments by the National Association of Travel Organizations. It specified a schedule of 10 legal holidays, 7 of which would be observed on a Monday, the schedule to become effective January 1, 1956, if adopted by 32 or more States of the United States of America before that date. The draft of reply stated that the Board had no suggestions with respect to the proposed act but that it was transmitting for the information of the Department of Justice the comments received from the Federal Reserve Banks regarding possible effects of its adoption.

Governor Vardaman stated that he felt it undesirable to transmit Federal Reserve Bank comments to another Government agency since it might open the door for such agency to communicate directly with individual Federal Reserve Banks, whereas it was his view that in all procedural matters the Board of Governors should be the channel for communication by Government agencies with the Federal Reserve System.

Governor Robertson suggested that the Attorney General might be advised that the Board had no comments to make with respect to the proposed bill, and that the letters of the Federal Reserve Banks not be transmitted to the Department of Justice.

Governor Mills questioned whether the Board should go so far as to indicate that it had no interest in the matter. He suggested that the letter be changed to say to the Attorney General that the Board had sent copies of the proposed act to the Federal Reserve Banks, that they had expressed a variety of views regarding the proposal, but that it was the apparent consensus that adoption of such legislation would not greatly affect bank operations although the congestion in check transactions resulting from a holiday period could delay their processing with the degree of promptness and efficiency that is desired by the business community.

This suggestion was approved unanimously, with the understanding that the letter would be sent to Mr. Duggan when in a form satisfactory to Governor Mills.

Secretary's Note: The letter was sent to Mr. Duggan under date of September 9, 1952, reading as follows:

"This refers to your letter of August 21, 1952, addressed to the Board's General Counsel and enclosing a copy of a draft of a proposed Monday Holiday Act prepared by the staff of the Council of State Governments.

"After consideration of this matter, it is the view of the Board that this proposal is not one which would significantly affect its functions and responsibilities under the law and, accordingly, it has no comments or suggestions to offer concerning the proposal. However, since enactment of the Monday Holiday Act would affect bank operations to some extent, we have obtained the opinions of the Federal Reserve Banks in that regard. While they express a variety of views, it is the apparent consensus that the proposed act would not greatly affect bank operations, although the congestion in check transactions resulting from a holiday period could delay their processing with the degree of promptness and efficiency that is desired by the business community."

At this point Mr. Leonard withdrew from the meeting.

Before this meeting there had been circulated among the members of the Board a memorandum from Mr. Raymond C. Kolb, President, Reserve Board Club, dated September 3, 1952, recommending that the Board approve the holding of a second annual hobby show for Board employees in space on the first floor of the Federal Reserve building on October 8, 9, and 10, 1952, and that it authorize the continuance of air conditioning in the building on the opening evening with approval of payment of overtime at the appropriate rate for the operating engineer who would need to be on duty for one evening for approximately four hours beyond his usual working day. Governor Vardaman had requested that the matter be discussed at a meeting.

Following a discussion, upon motion by Governor Robertson, the recommendation contained in Mr. Kolb's memorandum was approved unanimously.

Governor Robertson referred to a letter received from Mr. Leedy, President of the Federal Reserve Bank of Kansas City, dated August 15, 1952, which stated that the board of directors of that Bank had approved establishment of salaries for Messrs. Frank H. Larson, as Assistant Vice President at the head office, H. L. Stempel, as Cashier at the Denver Branch, and Howard W. Pritz, as Assistant Cashier at the Denver Branch, at the respective rates of $9,200, $8,200, and $6,500 effective August 15, 1952. The action of the board of directors of the Kansas City Bank had been reviewed in a memorandum from the Division of Personnel Administration dated August 26, 1952, which stated that it was submitting the matter to the Board without recommendation in view of comments in the reports of examination of that Bank indicating that Mr. Larson, formerly Cashier at the Denver Branch, was being transferred to the head office because it was not believed that he would develop sufficiently to enable him to assume the position of Vice President in charge of the Denver Branch. There was also attached a memorandum from Mr. Carpenter, Secretary, dated August 29, 1952, recommending that the Board approve the salaries as set by the Kansas City Bank directors with the understanding that it would discuss the management problem with the appropriate people at the Bank at the earliest opportunity.

Governor Robertson stated that following an informal discussion of the matter he had looked into the question whether there were outstanding instructions concerning assignments of officers of Federal Reserve Banks which were not observed by the Kansas City Bank in making the transfer in question and had found no such instructions. He also said that the Chief Federal Reserve Examiner does not discuss personalities with the Chairman or the President of a Federal Reserve Bank and that he did not do so in Mr. Larson's case. Under the circumstances, Governor Robertson recommended that the Board approve the payment of salaries to Messrs. Stempel and Pritz at the rates set by the board of directors of the Kansas City Bank but that in view of the examiner's comments regarding Mr. Larson, it approve payment of salary to him as Assistant Vice President at the rate he is presently receiving, i.e., $8,800 per annum, pending further observation of his work at the head office.

Governor Mills stated that the Board was not familiar with the reasons back of the action of the board of directors of the Kansas City Bank in increasing Mr. Larson's salary at the time of his transfer to Head Office. He felt that, if the increase were not to be approved at this time, it would be preferable to say to the Kansas City Bank that the Board would like to discuss the matter with President Leedy when he is in Washington later this month and that, in the meantime, it approved payment of Mr. Larson's salary at the present rate.

> This suggestion was approved unanimously, with the understanding that a letter would be sent to Mr. Leedy in a form satisfactory to Governor Robertson.

Secretary's Note: The letter to Mr. Leedy read as follows:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Kansas City and the Denver Branch, for the period August 15, 1952, through May 31, 1953, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of August 15, 1952.

"Name	Title	Annual Salary
H. L. Stempel	Cashier, Denver Branch	$8,200
Howard W. Pritz	Assistant Cashier, Denver Branch	6,500

"With respect to the salary for Mr. Frank H. Larson, the Board has not been advised of all the circumstances surrounding his transfer to the head office and would like to discuss the matter with you when you are in Washington at the time of the forthcoming Presidents' Conference. In the meantime, it approves the payment of salary to Mr. Larson as Assistant Vice President at the rate he is now receiving, namely $8,800 per annum, if that rate is approved by the Board of Directors of your Bank."

In this connection, Governor Vardaman suggested that Governor Robertson be requested to explore the question whether the directors of the Federal Reserve Banks should be advised that they shall not make transfers of individuals from one office of a Federal Reserve Bank to another without prior consultation with the Board. He also suggested that consideration be given to instructing the Board's examiner in charge of the field force to discuss personnel of the Federal Reserve Banks with the Chairman of each Federal Reserve Bank and with such committee of directors as might be designated for that purpose.

It was understood that Governor Robertson would explore these suggestions.

At this point the following members of the staff entered the room:

Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Leach, Acting Chief, Government Finance Section, Division of Research and Statistics

Mr. Leach reported on recent developments in the Government securities market and there followed a discussion of factors which might be expected to affect the supply of reserves available to banks during the next two weeks.

At this point all of the members of the staff except Mr. Sherman withdrew and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 8, 1952, were approved unanimously.

Letter to all Federal Reserve Agents, reading as follows:

"On December 4, 1914, the Board sent requests to the various Federal Reserve Agents that in issuing notes to Federal Reserve Banks they 'issue the lowest serial numbers of each denomination first, in so far as possible, thereby insuring the issuance of the notes somewhat in the order of their serial numbers.'

"The Board's files indicate that the Comptroller of the Currency directed a similar request to the Federal Reserve Agents on November 18, 1914.

"The desirability of general adherence to this rule is obvious. Nevertheless, the Board realizes that with the accumulation of unusually large stocks of currency it may be impracticable to follow the rule in some cases without undue inconvenience. The purpose of this letter is to "inform you that the Board sees no objection to your departing from the practice of issuing notes of the lowest serial numbers first when to do so will save time and expense. In this connection, we have been advised informally by the Office of the Comptroller of the Currency that they no longer have any objection to discontinuance of the requirement that notes be issued in strict serial order.

"It is essential however, that a record be kept of the serial numbers of notes issued, inasmuch as this record furnishes the only information as to the approximate date a given Federal Reserve note was placed into circulation."

Approved unanimously.

Assistant Secretary.