Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 28, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Boothe, Administrator, Office of Defense Loans

Governor Vardaman, after referring to his comments at the meeting on January 15, 1953, to the effect that the increase in the discount rate at the Federal Reserve Banks might encourage a renewal of arguments by bankers for an increase in the maximum permissible rate of interest in connection with loans guaranteed under the V-loan program, called attention to a letter dated January 21 from Mr. Kenton R. Cravens, Chairman of the Subcommittee on Financing of Defense Contracts of the American Bankers Association, making a formal appeal for a change in the maximum rate from 5 per cent to 5-1/2 per cent. Mr. Cravens' letter contained the statement that he had discussed this matter informally with representatives of the Departments of Defense, Army, Navy, and Air Force early last December, that it was the consensus that the maximum rate should be increased to 5-1/2 per cent, that representatives of those agencies stated unequivocally that they would interpose no objection to such a change, but that they pointed out that the initiative for instituting the change was the responsibility of the Board of Governors.

Governor Vardaman then referred to a memorandum submitted to him by Mr. Boothe under date of January 27 suggesting that the Board call a meeting with the several guaranteeing agencies to consult with them with reference to this matter, that a telegram be sent to Mr. Cravens inviting him to attend the meeting and present the views of the American Bankers Association, that following the meeting the Board give consideration to increasing the maximum rate to 5-1/2 per cent, and that, if the increase should be approved, it become effective immediately.

Governor Vardaman said that, in his opinion, such a meeting should be called and that as many of the members of the Board should attend the meeting as could arrange to do so, so that the Board might be in a position to consider immediately thereafter whether the increase should be granted. He suggested, therefore, that letters calling the meeting be transmitted over the signature of Chairman Martin to the heads of the several guaranteeing agencies concerned, with the understanding that the letter to the Secretary of Defense would request him to send representatives of the Departments of the Army, Navy, and Air Force in view of the fact that the secretaries of these departments had not yet been confirmed by the Senate, and with the further understanding that Mr. Boothe would contact the persons within the several guaranteeing agencies who had heretofore represented those agencies at such meetings to advise them that the formal letters calling the meeting had been sent.

Following a discussion, it was agreed that the meeting should be called for 3:00 p.m. on February 3, 1953, and unanimous approval was given to a letter to the Secretary of Defense in the following form, together with similar letters to the Secretary of Interior, Secretary of Agriculture, Secretary of Commerce, Chairman of the Atomic Energy Commission, and Administrator of General Services Administration, and a telegram to Mr. Cravens inviting him to be present at the meeting:

"In connection with the program of guaranteed V-loans for financing defense contractors under section 301 of the Defense Production Act of 1950, the Board of Governors, in September 1950, after consultation with the guaranteeing agencies, established a maximum rate of interest of 5 per cent per annum on such loans. This maximum rate is still in effect, although consultations were held during 1952 with regard to a possible increase in the rate. The Board has recently received a letter from Mr. K. R. Cravens, Chairman of the Subcommittee on Financing of Defense Contracts of the American Bankers Association, making a formal appeal for a change in the maximum rate from 5 per cent to 5-1/2 per cent. A copy of Mr. Cravens' letter is attached for your information.

"The Board would like to consult with the several guaranteeing agencies with reference to this matter in accordance with the Defense Production Act of 1950 and Executive Order 10161, and for this purpose a meeting will be held at the offices of the Board on Tuesday, February 3, 1953, at 3:00 p.m. It will be appreciated if you will arrange to have representatives of the Department of the Army, the Department of the Navy, and the Department of the Air Force present at this meeting in order to express the views of these agencies with respect to this matter. In the meantime, if there is any further information that our staff can supply regarding this question, they will be glad to do so."

At this point Messrs. Vest and Boothe withdrew from the meeting, and Mr. Allen, Director, Division of Personnel Administration, entered the room.

The following requests for travel authorization were presented:

Name and Title	Duration of Travel
Ralph A. Young, Director, Division of Research and Statistics	January 29, 1953

To proceed to New York, New York, to attend a meeting of the Goldsmith Advisory Committee at the offices of the Life Insurance Association of America.

Lowell Myrick, Assistant Director Division of Bank Operations	February 5-6, 1953

To proceed to New York, New York, to attend, as an associate member, a meeting of the Subcommittee on Destruction of Records of the Conference of Presidents of the Federal Reserve Banks.

Robert C. Masters, Assistant Director, Division of Examinations	February 8-13, 1953

To proceed to New York, New York, to attend the Mid-Winter Trust Conference of the American Bankers Association on February 9, 10, 11; to meet with the Committee on Common Trust Funds of the Trust Division, American Bankers Association, on February 10; and to attend the System Conference of Trust Examiners, to be held on February 12 and 13 at the Federal Reserve Bank of New York.

John R. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations	February 15-20, 1953

To visit the Federal Reserve Bank of Boston to review and discuss matters pertaining to functional expense reports, including operating procedure and methods of determining and allocating expenses.

Name and Title	Duration of Travel
John N. Kiley, Jr., Technical Assistant, Division of Bank Operations	February 9-13, 1953

To visit the Federal Reserve Bank of Philadelphia to review and discuss matters pertaining to functional expense reports, including operating procedure and methods of determining and allocating expenses.

Approved unanimously.

There was presented a memorandum dated January 22, 1953, from Mr. Marget, Director, Division of International Finance, recommending that Frank M. Tamagna, Chief of the Financial Operations and Policy Section in that Division, be granted one day of official leave, and actual necessary transportation expenses and per diem in lieu of subsistence in accordance with the Board's travel regulations in connection with a trip to New Haven, Connecticut, some time during the second half of February to discuss the question of multilateral trade in relation to economic development before a group of graduate students at Yale University.

Approved unanimously.

It was stated that the consultants to the Board in connection with the revision of the Board's consumer credit statistics could be available for a discussion of that matter at 2:00 p.m. on February 5, 1953.

It was agreed that the discussion should be held at that time.

Chairman Martin referred to an Associated Press dispatch dated today indicating that the Senate Banking and Currency Committee was to hold a meeting in executive session at 2:00 p.m. this afternoon, with the Housing and Home Finance Administrator, the Administrator of the Veterans' Administration, and spokesmen for the Treasury Department and the Federal Reserve Board present, to discuss interest rates on Federal Housing Administration and Veterans' Administration insured mortgage loans. No request or invitation to attend the meeting had been received by the Board.

> It was agreed that if a request should be received from the Committee, Chairman Martin would decide who should represent the Board at the meeting.

At the meeting on June 6, 1952, Messrs. Szymczak, Mills, and Robertson were requested to serve as a committee to study and make recommendations to the full Board on salaries of officers at the Federal Reserve Banks, the formulation of executive training and development programs, and the level of employees' salaries under the job classification and salary administration plan of the Federal Reserve Banks. Governor Szymczak referred to the informal discussions of these matters in the interim and stated that the committee was prepared to submit for the Board's consideration a plan for administration of salaries of Reserve Bank officers, other than Presidents and First Vice Presidents, having as its principal objective the establishment of a common basis for the determination of such salaries by the boards of directors of the respective Banks and by the Board of Governors.

By way of background, Governor Szymczak traced the development of the job classification and salary administration plan for nonofficial personnel at the Reserve Banks, pointing out that, although the question of providing a somewhat similar plan for officers had come before the Board at various times, no action had been taken to put such a plan into effect. He also commented on the steps which had been taken over the years to provide fringe benefits to Reserve Bank personnel through the institution and liberalization of the Retirement System and through provision of cost-free group life insurance coverage.

Governor Szymczak recalled that the question of establishing a plan for officers' salaries came up last year in connection with receipt by the Board of requests from the boards of directors of several of the Reserve Banks for approval of increases in the salaries of their Presidents and First Vice Presidents and that it was the feeling that, before considering the problem of the salaries of the top officers, there should be developed a salary plan for officers whereby the Board might be properly informed on their duties and responsibilities and the caliber of their performance, so that it might adequately discharge its statutory responsibilities while at the same time providing as much latitude as possible for the exercise of discretion by the boards of directors of the respective Reserve Banks.

Governor Szymczak then called upon Mr. Allen, who described the principal features of the plan, which would include:

1. A written statement of official duties and responsibilities of each officer.

2. The placing of officers in groups according to their levels of duties and responsibilities.

3. The fixing of minimum and maximum salaries for each group.

4. A periodic review of each officer's performance.

5. The inclusion of officers' salaries in the Reserve Banks' annual budgets.

Mr. Allen stated that the major premise of any job evaluation program was that each individual should be compensated according to his contribution to the organization, that this could be accomplished only by determining in a systematic manner as accurately as possible the duties and responsibilities of each individual officer, and that, accordingly, the first step in the proposed plan would be to secure written descriptions of each officer's duties and responsibilities, with the understanding that thereafter the plan could be adjusted to any salary level which might be determined. The written statements of duties and responsibilities would be prepared by appropriate senior officers at each Reserve Bank and initialed at some stage by the officer concerned, they would be rewritten as changes in duties and responsibilities of the individual officers occurred, and they would be reviewed carefully by the Reserve Bank each year to make sure that they continued to be accurate. Copies of the statements, and revisions thereof, would be transmitted to the Board, where their accuracy would be further checked against information available to the Board and comparisons would be made between Reserve Banks.

Based on these descriptions of duties and responsibilities, the officers would be allocated to one of several groups, probably four or five, except at the New York and Chicago Banks, where there might be need for a greater number of groups. The minimum and maximum salaries for each group would be fixed by the respective Reserve Banks, with the approval of the Board, and they would be related at the higher levels to the salary of the First Vice President and at the bottom to community rates, with the proviso that the maximum of the highest group would be less than the salary of the First Vice President. Progress from one group to another would be based on the assumption of additional duties and responsibilities, at which time the Reserve Bank would prepare a new job description sheet and the Board would be requested to approve placing the position in a higher group. As to promotions within the salary ranges of a particular group, each Reserve Bank would be expected to make a periodic review, at least once a year, of the performance of each officer and prepare in writing a rating of performance. Each year the estimated cost of the officer pay roll would be included in each

Reserve Bank's budget as submitted to the Board, accompanied by an explanation of any changes from the prior year's expenses. The Board would then make various analyses, including study of the total cost of officers' salaries of one Reserve Bank in relation to another, the trend of number of officers and their aggregate salaries at each Bank, and the relationship of the average of the salaries of officers in a particular group to the mid-point of that group. The Board would also review proposed salaries for individual officers in the light of available facts concerning their performance.

Mr. Allen then referred to the study of officers' salaries which was made last year for the Federal Reserve Bank of Chicago by the firm of Booz, Allen, and Hamilton, stating that the plan proposed by the committee of the Board and the plan submitted by Booz, Allen, and Hamilton were basically the same. The committee's plan would provide, however, for more than three groups of officers, exclusive of the President and the First Vice President, on the theory that a spread of more than 50 per cent between the minimum and maximum salaries of any group would not provide a sufficient control, and it would provide for a higher salary for the First Vice President than the maximum payable to any other officer on the grounds that the First Vice President, under the present administrative set-up at the Federal Reserve Banks, should in all respects be clearly the second man to the President in the chain of command.

Members of the Board noted that the suggested plan provided for an overlap in salaries between the several groups of officers, and Mr. Allen expressed the view that this would be justified in order to provide adequate compensation for an officer who had long and satisfactory service but whose qualifications were not such that he could assume duties and responsibilities which would warrant his promotion into a higher group.

Governor Evans pointed out that under the job classification and salary administration plan for Reserve Bank non-officer personnel, average salaries within a grade were related to the third quarter bracket of wage rates paid by progressive firms in the community, and he expressed the view that the same principle should be applicable in the case of the junior officers. He also stressed the importance of skilled analysis in preparing and reviewing the statements of officers' duties and responsibilities.

Governor Vardaman inquired to what extent, under the proposed plan, the Board would be expected to continue to pass upon the performance of individual officers in approving salaries, stating that he would favor the plan only if it were true that it was in the direction of expanding the responsibility of the Reserve Bank directors for judging the performance of individual officers and in the direction of restricting the review of proposed salaries by the Board to the point of considering whether the duties and responsibilities of a position justified the compensation, that is, an approach to the matter on a more impersonal basis than at present.

There was a full discussion of this point, during which it was brought out that after the plan was in full operation and experience had been gained with it, it would be hoped that the recommendations of the Reserve Banks might be accepted almost automatically, although the Board would continue to raise questions in any given case on the basis of available information.

Governor Szymczak said that if the plan were accepted by the full Board, it would be necessary to discuss it with Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, who was designated at the recent meeting of the Chairmen's Conference to work with the Board and the Reserve Bank Presidents in formulating a plan for administration of officers' salaries, and with Mr. Leach, Chairman of the Conference of Reserve Bank Presidents, or another President designated by him, and that there would then have to be meetings of a group comprised of selected personnel officers from some of the Reserve Banks and the Board's Director of Personnel Administration for the purpose of outlining the content of the statement of duties and responsibilities to assure uniformity among the Reserve Banks and later for the purpose of establishing the officer groups at each Bank and allocating the various officers to those groups.

Following further discussion, the plan proposed by the special committee of the Board was approved unanimously, with the understanding that steps would be taken to put it into effect along the lines suggested by Governor Szymczak and that a further report would be made to the Board following discussions with Messrs. Hodgkinson and Leach.

Governor Szymczak then referred to the fact that, in accordance with the customary procedure, the Federal Reserve Banks would soon be submitting to the Board for approval recommendations for increases in salaries of their officers for the forthcoming salary year.

There was discussion of this point, and it was the consensus of the Board that in view of the approval of the new plan for officers' salaries, it would be inadvisable to approve any increases in salaries at this time, except in unusual cases, particularly since any such adjustments might result in additional complications in adjusting to the new plan.

It was agreed that a letter should be prepared for the Chairman's signature to the Chairmen and Presidents of all Federal Reserve Banks advising them of the Board's views in this respect.

Secretary's Note: Pursuant to the above action, the following letter was sent under date of February 2, 1953:

"As you know, the Board has been considering for some time a plan of salary administration covering salaries of "officers of Federal Reserve Banks which would provide a common basis for the determination of such salaries by the boards of directors of the Reserve Banks and the Board of Governors. The Board would like now to proceed with the adoption of such a plan for salaries of officers below the President and First Vice President.

"This matter was discussed at the Chairmen's Conference in Chicago in December at which time the Chairmen designated Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, to represent the Conference on a special committee to consist of representatives of the Chairmen's and Presidents' Conferences and the Board of Governors to work out the details of such a plan and the steps to be taken to put it into effect. The Board has asked Mr. Leach, Chairman of the Presidents' Conference, to designate a President as a member of this committee, and Governor Szymczak will serve as the Board's representative and as Chairman of the special committee. The committee is meeting today to initiate the preparation of a final recommendation on the plan so it can be put into operation, if possible, on June 1, 1953, with salary approvals under the plan becoming effective July 1, 1953.

"In view of this program, the Board of Governors would prefer to defer consideration of the usual annual adjustments in salaries of officers (which under the present procedure would become effective at New York and Chicago on April 1, at Boston, Philadelphia, Cleveland, and San Francisco on May 1, and at the other six Federal Reserve Banks on June 1) until the plan has been put into operation and can be applied in the consideration of the increases to be approved this year. Of course, should there be cases at your Bank where your directors feel action should be taken prior to that time, the Board would be willing to consider them, but it is hoped that such cases can be kept to an absolute minimum in the interest of a more effective consideration of the over-all salary problem in the light of the new plan when it has been approved.

"Accordingly, the Board approves the payment through June 30, 1953, of salaries of all the officers of your Bank at the rates heretofore approved by the Board, except in those cases, such as retirements, where approval of salaries terminate before the usual effective dates.

"This letter is being sent to the Chairmen and Presidents of all of the Federal Reserve Banks."

At the meeting on December 24, 1952, there was a discussion of the draft of report on problems involved in the effective budgetary control of expenses of the Federal Reserve Banks which was prepared by a Special Committee headed by Mr. Coleman, Chairman of the Federal Reserve Bank of Chicago. Pursuant to the understanding at that time, Governor Mills discussed with Mr. Coleman, and also with Mr. Leach, President of the Federal Reserve Bank of Richmond, who represented the Reserve Bank Presidents on the Special Committee, what further steps should be taken with respect to the report. As a result of those discussions, there had been sent to the members of the Board prior to this meeting a draft of letter to the Chairmen and Presidents of all Federal Reserve Banks reading as follows:

"In 1950 a Special Committee, consisting of representatives of the Chairmen and Presidents of the Federal Reserve Banks and the Board of Governors, was appointed to study and submit a report on the problems involved in effective budgetary control of expenses of the Federal Reserve Banks. The Committee prepared a draft of report which contained summaries of, and recommendations with respect to, reports submitted by four staff committees on (1) general operating expenses, (2) provision of personnel, (3) public relations, and (4) research. The draft of report was prepared in May 1951 but for various reasons was not distributed at that time.

"The question of what action should be taken at this time has been discussed with Mr. Coleman and President Leach, members of the Special Committee. They feel that the recommendations in the report are basically sound, that the matters covered by the report should now be pursued to a conclusion, and that for that purpose the reports submitted by the respective staff committees should be referred back to them for such changes as they might wish to make in the light of developments since their reports were presented.

"In order that the respective staff committees might have the benefit of the current thinking of the officers and directors of the Federal Reserve Banks on these topics, the special committee has asked that a copy of the draft of report of the Special Committee be sent to the Presidents and Chairmen of the Federal Reserve Banks with the request that the views of the officers and directors of your Bank with respect to each of the four matters covered by the report be sent to the chairmen of the respective staff committees as promptly as possible with a copy to this office. Two copies of the draft of report are enclosed for this purpose.

"Upon receipt of the comments and suggestions of the Federal Reserve Banks, the staff committees will review their earlier reports for resubmission to the Special Committee. Thereupon, the report of the Special Committee will be prepared and sent to Chairmen and Presidents of the Federal Reserve Banks and to the Board of Governors with the thought that the necessary final action can be taken on the report well in advance of the time for consideration of the budgets of the Federal Reserve Banks for 1954.

"The Chairmen of the four staff committees are as follows:

General Operating Expenses	W. J. Davis, First Vice President of the Federal Reserve Bank of Philadelphia
Provision of Personnel	K. Brantley Watson, Vice President of the Federal Reserve Bank of Richmond
Bank and Public Relations	Edw. A. Wayne, Vice President of the Federal Reserve Bank of Richmond
Research	Woodlief Thomas, Economic Adviser, Board of Governors"

Approved unanimously, for the signature of Mr. Carpenter as Secretary of the Special Committee.

Reference was made to a telegram dated January 27, 1953, from Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, sent in reply to the Board's telegram of the previous day, in which Mr. Parten advised that Mr. R. T. Hoover, Sr., of El Paso, Texas, would be unable to accept appointment as a director of the El Paso Branch because of other responsibilities and the state of his health.

Following consideration of other persons suggested by Chairman Parten for the directorship, concerning whom data had been sent to the members of the Board with Mr. Allen's memorandum of January 2, 1953, it was voted unanimously to appoint Mr. Dean T. Stahmann, farmer, of Las Cruces, New Mexico, as a director of the El Paso Branch for the unexpired portion of the three-year term ending December 31, 1953, provided that Mr. Parten first ascertained and advised the Board that Mr. Stahmann would accept the appointment if tendered.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 27, 1953, were approved unanimously.

Memorandum dated January 9, 1953, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Aline L. Yates, Index Clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business January 31, 1953.

Approved unanimously.

Memorandum dated January 23, 1953, from Mr. Bethea, Director, Division of Administrative Services, stating that Florence A. McVearry, Cafeteria Helper in that Division, has attained age 65 this month and has submitted her application for retirement under the Board Plan of the Federal Reserve Retirement System, effective February 1, 1953.

Noted.

Letter to Mr. Brown, Assistant Secretary, Board of Directors, Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves the reappointments of Messrs. Sanford, Milner, Winship, Gamble, and Randall as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each, beginning March 1, 1953, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Atlanta, as reported in your letter of January 16, 1953."

Approved unanimously.

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

"In view of the circumstances described in your letter of January 15, 1953, the Board of Governors approves the payment of salary to Erneal N. Brewer, effective January 12, 1953, at the rate of $4,326.40 per annum, which, when converted to an annual rate on a forty hour work week basis, exceeds the maximum established for the grade in which his position is classified."

Approved unanimously.

S Carpenter
Secretary