

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 29, 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. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Noyes, Assistant Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Cherry, Legislative Counsel

At the request of Chairman Martin, Mr. Cherry commented on the legislative situation. Among other things, he stated that the House Banking and Currency Committee had invited Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, to appear with other members of the Bank's staff to give the presentation, "Your Money's Worth", before the Committee on the afternoon of February 3, 1953, with the members of the Senate Banking and Currency Committee also invited to be present.

Regarding bank holding company legislation, Mr. Cherry said that there were other matters which the Senate Banking and Currency Committee probably would consider first, including extension of the Defense Production Act, so that it seemed doubtful whether Bill S. 76, introduced by Senator

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Robertson, of Virginia, concerning which the Board's views were requested in a letter dated January 12, 1953, from Mr. Joseph P. McMurray, Staff Director of the Senate Banking and Currency Committee, would be taken up for some time.

Mr. Cherry also stated that staff members of both banking and currency committees indicated that a bill to increase the statutory limitation on the "building proper" cost of Federal Reserve Bank branch buildings, if submitted by the Board, might be handled fairly promptly.

Mr. Cherry then commented on three bills introduced in the Senate concerning which routine requests had been received by the Board for its views and as to which he had sent memoranda to the members of the Board under date of January 28, 1953:

1. Bill S. 136, to increase the insurance protection of depositors in federally insured banks from \$10,000 to \$15,000.
2. Bill S. 13, to permit the sale of gold within the United States, its Territories and possessions, including Alaska, and for other purposes.
3. Bill S. 589, providing for the creation of the Saint Lawrence Seaway Development Corporation to construct part of the Saint Lawrence Seaway in United States territory in the interest of national security.

It was agreed unanimously, on the basis of Mr. Cherry's comments, that the requests for views on the three above mentioned bills should be filed without reply unless and until subsequent developments should change the situation.

Mr. Cherry also said that the Subcommittee on Housing of the Senate Banking and Currency Committee would hold a hearing on February 2, 1953,

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on S. J. Res. 27, which would amend Section 2(a) of the National Housing Act, as amended, to increase the Federal Housing Administration's Title I loan insurance authorization from \$1,250 million to \$1,750 million and make it clear that the new dollar authorization referred to the aggregate of loan amounts advanced to borrowers, exclusive of financing charges. He went on to say that the views of the Board on the joint resolution had been requested in a letter dated January 28, 1953, from Mr. Roger Jones, Assistant Director, Legislative Reference, Bureau of the Budget.

Chairman Martin stated that he would ask Mr. Thurston and Mr. Cherry to report at the meetings of the Board periodically during the time Congress was in session so that the Board might be kept abreast of legislative developments within its field of interest, that Mr. Cherry had been requested to send memoranda to the members of the Board concerning bills introduced and other legislative matters of concern to the Board, and that Mr. Vest had been requested to call to his (Chairman Martin's) attention any matter which the Legal Division felt warranted consideration by the Board.

Chairman Martin then called upon Mr. Vest, who discussed the request from the Budget Bureau for the Board's views on the draft of joint resolution referred to by Mr. Cherry and stated that the Bureau's letter

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also requested the Board's views on a draft of another joint resolution which would amend Public Law 52, 81st Congress, and section 214 of the National Housing Act, as amended, so as to extend certain authority of the Federal Housing Administration and the Federal National Mortgage Association to Guam and Hawaii, thus placing Guam and Hawaii in the same position as Alaska in respect to (1) the maximum mortgage amounts eligible for Federal Housing Administration insurance and (2) the dollar limitations and advance commitments to purchase Federal Housing Administration insured mortgages applicable to the Federal National Mortgage Association.

There ensued a full discussion of what reply should be made to the Bureau of the Budget, at the conclusion of which unanimous approval was given to a letter for the signature of the Chairman in the following form:

"This refers to your letter of January 28, 1953, requesting an expression of the Board's views with respect to two proposed joint resolutions 'To amend section 2(a) of the National Housing Act, as amended', and 'To extend certain authority of the Federal National Mortgage Association and Federal Housing Administration to Guam and Hawaii'. The first of these proposals would increase the FHA Title I loan insurance authorization by \$500,000,000 and would make certain other changes which would have the practical effect of raising this increase to about \$593,000,000. The other proposal would provide certain increased authority for insurance of mortgages by FHA, and purchases of insured mortgages by FNMA, in Hawaii and Guam.

"The Board recognizes that the program of FHA insurance under Title I of the National Housing Act has been beneficial to many home owners, contractors, suppliers and lenders. During certain periods of deflationary pressures the program has also been helpful to the general economy by aiding in the stimulation of business activity and employment.

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"At the present time, however, the Nation's economy is operating at a high level, inflationary pressures are strong, and the Board feels that the proposal should be examined in the light of these conditions. We recognize that other programs for Government insurance and guarantee of real estate credit are relatively of much greater significance in the economic picture, as is evidenced by the fact that mortgage credit outstanding on one to four family residences increased by about \$7,000,000,000 in the calendar year 1952. On the other hand, the Board feels that, wherever practicable, it is advisable to defer further expansion of any program which would add to inflationary pressures under present conditions and, conversely, could help to offset deflationary pressures at a later date.

"We note from the material accompanying the proposal that even if there is no increase in the authorized maximum amount, the Title I insurance program will continue at a substantial rate, as it is estimated that repayments of present outstanding loans will provide authorization over the next 18 months for the insurance of some \$1,350,000,000 of new loans. We note also that the basis for the proposed increase in authorization envisages a rate of new loan insurance of \$100,000,000 per month, which represents a substantial increase over the rate of any previous year and, specifically, about 33-1/3 per cent increase over calendar 1952.

"In view of present economic conditions and the inflationary tendencies now apparent, the Board is inclined to question the wisdom of an increase in the authorization for Title I insurance at this time. While the same considerations would seem to be generally applicable to the proposal regarding Guam and Hawaii, that proposal would appear to involve less important credit aspects and may involve considerations of national defense as to which the Board is not fully informed.

"We appreciate this opportunity to comment on these proposals."

At this point all of the members of the staff except Messrs. Carpenter and Kenyon withdrew from the meeting.

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Pursuant to the understanding at the meeting on January 21, 1953, Mr. Vest had prepared under date of January 26 a file memorandum expressing the opinion that excess collections from employees over the net premium paid to the Aetna Life Insurance Company under the contributory group life insurance policy which expired April 30, 1952, legally belonged to the Board for the reasons stated in the memorandum from the staff dated July 17, 1952, and because of the provisions of the contract of insurance (the insurance policy) which the Board had with the Aetna Life Insurance Company, particularly the provision that a refund of premium for the policy year should "be paid to the employer", the reference to "unearned premium due the employer on account of terminated and decreased insurance", the provision that "the employer agrees to pay the required premium to the Company and deduct from the employees' salaries or wages" not in excess of 60 cents per month per \$1,000 of insurance, and the provision that "no changes in the amount of employees' contribution shall be effected" without Company approval. In the final paragraph of the memorandum Mr. Vest stated that he had also considered the question whether there was any moral obligation on the part of the Board to refund the amount in question to the employees and that, while opinions in a matter of that kind might differ widely, it was his opinion that the Board had no obligation in this case, for the reasons stated in the staff memorandum of July 17, 1952, and particularly because the Board had provided a more liberal

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group life insurance policy for all of its employees at no cost to them.

Mr. Vest's memorandum had been placed in circulation among the members of the Board, and Governor Mills had attached a memorandum dated January 28, 1953, stating that, although he concurred in the recommendation that the excess collections be covered into the Board's miscellaneous receipts, it would be his personal preference that the amount involved be set up as an employees' welfare fund.

During a further discussion of the matter, Chairman Martin expressed the view that a welfare fund would pose difficult administrative problems, and said that, since the Board was under no legal or moral obligation to return the funds to the participating employees, he would suggest, in all the circumstances, that the problem be disposed of by covering the amount involved into the Board's miscellaneous receipts.

Governor Vardaman expressed the view that the first and second paragraphs of Mr. Vest's memorandum were sufficient to establish that there was no legal obligation to return the funds to the participating employees, and he proposed, therefore, that the final paragraph of the memorandum be eliminated.

Thereupon, it was understood that Mr. Vest's memorandum, with the final paragraph deleted, would be placed in the files, and it was agreed that the excess collections, amounting to \$2,768.48,

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should be covered into the Board's miscellaneous receipts, Governor Vardaman voting "no" because, in his opinion, the funds represented an overcharge to the participating employees and should be returned to them.

At this point Messrs. Carpenter and Kenyon withdrew and the Board went into executive session. Thereafter, the Secretary was informed by Governor Szymczak that the following actions had been taken:

Before this meeting there had been sent to each member of the Board a copy of a memorandum dated January 13, 1953, from Mr. Allen, Director of the Division of Personnel Administration, relating to increases in the annual salaries of assistant division heads in the Board's staff. The Board had discussed the matter in executive session and the memorandum was referred to a committee consisting of Messrs. Szymczak, Mills, and Robertson for recommendation. At this meeting the recommendations of the committee were considered, and the following increases were approved by unanimous vote, effective February 1, 1953, with the understanding that the budget of the Board for personal services for the year 1953, approved at the meeting on December 19, 1952, would be increased by an amount equal to the total amount of the increases:

<u>Name and Title</u>	<u>Salary Increase</u>	
	<u>From</u>	<u>To</u>
<u>Board Members' Section</u>		
Clarke L. Fauver, Assistant to Mr. Thurston	\$10,500	\$11,000
Charles Molony, Assistant to Mr. Thurston	10,800	11,300
<u>Office of the Secretary</u>		
Merritt Sherman, Assistant Secretary	12,500	13,000
Kenneth A. Kenyon, Assistant Secretary	8,500	9,000

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<u>Name and Title</u>	<u>Legal Division</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Frederic Solomon, Assistant General Counsel		\$13,000	\$13,500
<p>The increase in Mr. Solomon's salary was approved subject to clearance with the Salary Stabilization Board.</p> <p>Secretary's Note: Following the meeting, Messrs. Vest and Allen discussed the matter with a representative of the Salary Stabilization Board and were informed that the increase could be made under the so-called "10 per cent catch-up formula", as explained in Mr. Allen's file memorandum dated January 30, 1953.</p>			
Howard H. Hackley, Assistant General Counsel		11,500	12,500
<u>Division of Research and Statistics</u>			
Frank R. Garfield, Adviser on Economic Research		12,500	13,500
Kenneth B. Williams, Assistant Director		12,000	13,000
Susan S. Burr, Assistant Director		12,000	13,000
C. Richard Youngdahl, Assistant Director		12,000	12,500
<u>Division of International Finance</u>			
Lewis N. Dembitz, Assistant Director		12,000	12,500
<u>Division of Examinations</u>			
C. C. Hostrup, Assistant Director		11,500	12,000
Arthur H. Lang, Chief Federal Reserve Examiner		11,500	12,000
Robert C. Masters, Assistant Director		11,500	12,000
Henry Benner, Assistant Director		11,500	12,000
<u>Division of Bank Operations</u>			
Lowell Myrick, Assistant Director		11,500	12,000
<u>Division of Personnel Administration</u>			
H. F. Sprecher, Jr., Assistant Director		8,250	9,250

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<u>Name and Title</u>	<u>Salary Increase</u>	
	<u>From</u>	<u>To</u>
<u>Division of Administrative Services</u>		
Joseph E. Kelleher, Assistant Director	\$8,250	\$9,250
Edwin J. Johnson, Assistant Director	8,250	9,250

In connection with the above action, it was decided that hereafter, at the time of the annual consideration of salaries of assistant directors in the Board's staff, the Board would discuss the matter in advance and inform the respective division heads through the Director of the Division of Personnel Administration as to the basis on which increases were to be considered and recommended to the Board, and that when the recommendations of the division heads had been submitted, the Board would decide whether to appoint a committee to meet with the individual division heads for a discussion of the recommendations or whether each division head would be asked to come before the entire Board for such a discussion.

Consideration was also given during the executive session to two memoranda, dated January 22 and January 23, 1953, from the Division of Personnel Administration, relating to: (1) supplementing the retirement allowances of retired Federal Reserve Bank employees, and (2) provision of a modest death benefit for retiring Federal Reserve Bank employees. The memorandum on the first subject, after reviewing the recommendations of the Retirement Committee, recommended:

1. That the Board advise the Retirement Committee that it approves the adjustment in service retirement allowances as originally proposed, except no allowance be increased above \$3,600 and the adjustment for those with less than 10 years' service be \$30 for each year of service rather than a blanket amount of \$300.

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2. That the Board approve supplemental allowances to members on special service retirement and under the same formula as that used for those on regular service retirement with the additional limitations stated in the memorandum.

3. That the Board approve in principle the approach which the Retirement Committee had taken to the problem of supplementing disability allowances and that the Presidents' Conference be requested to submit a firm recommendation as to the exact formula to be used.

4. That annuitants currently under Option 2 or 3 be permitted to take all of the adjusted increase or to pass all or any of it to their survivors, if any.

The second memorandum recommended that the Board not approve the proposal for a death benefit for retiring employees.

The recommendations contained in the two memoranda were approved unanimously.

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 28, 1953, were approved unanimously.

Telegram to Mr. Robert J. Smith, President, Pioneer Air Lines, Inc., Dallas, Texas, prepared pursuant to action taken at the meeting on January 26, 1953, and reading as follows:

"Board of Governors of the Federal Reserve System has appointed you a Class C director of the Federal Reserve Bank of Dallas for unexpired portion of three-year term ending December 31, 1954, and has appointed you Deputy Chairman at the Bank for the remaining portion of the year

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"1953. It is understood that in order to qualify as a Class C director, you will resign as commercial bank director and dispose of any bank stock you may own."

Approved unanimously.

Telegram to Mr. Dean F. Stahmann, Las Cruces, New Mexico, prepared pursuant to action taken at the meeting on January 28, 1953, and reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of El Paso Branch of Federal Reserve Bank of Dallas for unexpired portion of three-year term ending December 31, 1953, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold political or public office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Dallas."

Approved unanimously.

Memoranda recommending that the resignations of the following employees be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective date</u>
	Memorandum from Mr. Marget, Director, <u>Division of International Finance</u>	
1/26/53	Barbara Ann Chronister, Clerk-Stenographer	2/6/53
	Memorandum from Mr. Allen, Director, <u>Division of Personnel Administration</u>	
1/27/53	Louise Mayer, Substitute Nurse	2/4/53

Approved unanimously.

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Letter for the signature of the Chairman to Mr. John E. Horne, Administrator, Small Defense Plants Administration, Washington, D. C., reading as follows:

"This is in response to your letter of January 12, inviting us to appoint a representative to your interdepartmental Small Business Committee and suggesting the name of Mr. Charles H. Schmidt, who is Chief of the Business Finance and Capital Markets Section in our Division of Research and Statistics.

"I am happy to inform you that the Board has no objection to Mr. Schmidt's participation in the work of this committee."

Approved unanimously.

Letter to Mr. Harvey, Vice President and Cashier, Federal Reserve Bank of Boston, reading as follows:

"In view of the circumstances described in your letter of January 20, 1953, the Board of Governors approves, for an additional period of six months ending August 6, 1953, the payment of salaries to the following employees at the rates indicated, which exceed the maximums established for the grades in which their positions are classified.

<u>Name</u>	<u>Annual Salary</u>
Grace I. Barkley	\$2,272
John O. Barrows	3,270
Ralph M. Simonds	3,060
George H. Smith	3,060
Nancy G. Quattrochi	2,730"

Approved unanimously.

Letter to Mr. McConnell, Secretary of the Board, Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors approves the reappointments of Messrs. Sheldon V. Wood, John M. Bush, Albert L. Miller,

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"Walter Ringer, and A. H. Daggett as members of the Industrial Advisory Committee for the Ninth 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 Minneapolis as reported in your letter of January 22, 1953."

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"In view of the recommendation contained in your letter of January 19, 1953, the Board of Governors gives its prior consent to the Camden Trust Company, Camden, New Jersey, to retire \$50,000 of its preferred stock held by the Reconstruction Finance Corporation on or immediately prior to February 1, 1953. Please advise the Camden Trust Company accordingly."

Approved unanimously.

Letter to Mr. H. V. Prochnow, Secretary, Federal Advisory Council, c/o First National Bank, Chicago, Illinois, reading as follows:

"In response to your letter of January 15, 1953, the Board Room will be available on Monday afternoon, February 16, for the meeting of the Council and the usual arrangements will be made for luncheon for fourteen in the Blue Room on February 17. The material requested in the last two paragraphs of your letter will be sent to you at the hotel on February 13.

"There is set forth below the topics which the Board would like to have the Council discuss at the February meeting:

1. What are the views of the Council on the prospective business and economic situation during the next six months and the probable changes in the volume of bank loans during that period? What problems, if any, does the Council foresee in the substantial growth of consumer and real estate credit that has taken place?

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"2. Does the Council have any comments or suggestions to make with respect to System credit policies during the recent period and what these policies should be in the months ahead?

3. The Board has not yet finally formulated its views as to definite recommendations with respect to legislation during the present session of the Congress and would like to have the comments of the Council as to the proposals that might be made."

Approved unanimously.

Memorandum dated January 26, 1953, from Mr. Sloan, Director, Division of Examinations, recommending, for reasons stated, that the Division of Administrative Services be authorized to make available for training purposes during each session of the Inter-Agency Bank Examination School in 1953 sums not to exceed \$10,000 in currency (paper and metallic) with the understanding that when in use the currency would be under the responsibility of Mr. Goodman, Assistant Director, Division of Examinations, and that when not in use for the purposes specified, and in any event at the end of each day, it would be returned to the Fiscal Section of the Division of Administrative Services. The memorandum also recommended that the Board authorize the expenditure of such funds as necessary to defray incidental out-of-pocket expenses of the School, including the cost of a reception and luncheon in connection with each session during 1953 similar to those given during the two sessions held in 1952. The memorandum stated that, pursuant to arrangements initiated by Governor Robertson with the Comptroller of the

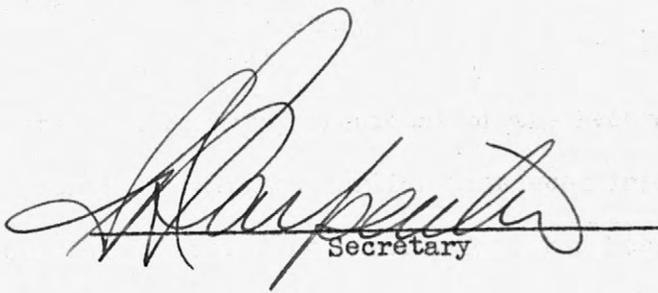
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Currency and the Chairman of the Federal Deposit Insurance Corporation, it had been agreed that four sessions of the School would be conducted in 1953, as follows:

First session:	February 2 - March 6
Second session:	April 6 - May 8
Third session:	July 6 - August 7 (Dates Tentative)
Fourth session:	October 12 - November 13

Approved unanimously.



Secretary