

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 9, 1953. The Board met in the Board Room at 10:10 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Allen, Director, Division of Personnel Administration

Chairman Martin referred to a statement issued under date of February 3, 1953, by Mr. James C. Hagerty, Press Secretary to President Eisenhower, concerning the establishment by Mr. Joseph M. Dodge, Director of the Bureau of the Budget, with the approval of the President and the concurrence of the Cabinet, of certain policies to be applied in arriving at recommendations for revisions of the budget for the fiscal year 1954, which policies were being transmitted by Mr. Dodge that day to all department and agency heads in the executive branch of the Government.

As to personnel, the statement indicated that it was the policy to achieve a progressive reduction of Government personnel, that in order to accomplish this each department and agency head should immediately restrict the hiring of additional personnel, and that no vacancies should be filled until it had been determined that the positions represented

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by vacancies could not be eliminated and until it had been established that increased efficiency, better utilization of personnel, or changes in standards and policies would not serve to make the additions unnecessary.

Regarding construction, it was stated that the policy would be to proceed only with clearly essential projects, and on such projects to employ the strictest standards of economy. All proposed or authorized construction projects on which work had not yet been started were to be reviewed and construction initiated only on those projects meeting these criteria. All going construction projects were to be reviewed according to the same criteria and appropriate action taken, including action to stop the work if that appeared advisable.

With regard to programs, it was stated that the policy would be to operate at a minimum level of costs and expenditures, this requiring that the necessity for all work be questioned and action taken to eliminate unnecessary programs and to hold the remainder to minimum levels.

Referring to the policy regarding personnel, Chairman Martin said that although the statement did not apply to the Board directly, since the Board does not operate with appropriated funds, and although no communication had been received from Mr. Dodge, he felt that the Board should follow the announced policy as a general guide. He added

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that in his opinion the Board had been adhering to practices which conformed quite closely to the policy fixed by the Budget Bureau Director.

There ensued a discussion of Federal Reserve Bank branch building programs in the light of the stated policy on construction, during which Mr. Leonard said that the only current project to which the policy might be considered applicable was the addition to the Los Angeles Branch of the Federal Reserve Bank of San Francisco, on which bids had been asked. This construction, he pointed out, was urgently needed.

Mr. Leonard then brought out that the costs of Reserve Bank building programs affect interest payments to the Treasury on Federal Reserve notes only to the extent of the depreciation taken on the capitalized expenditures.

Chairman Martin, referring to the request made of Mr. Leonard at the meeting of the Board on February 3, 1953, suggested that the Division of Bank Operations assemble detailed information on the proposed branch building programs which would develop the need for the programs as clearly as possible so that any request by the Board for an increase in the statutory limitations on the "building proper" costs of Reserve Bank branch buildings would be properly supported.

Mr. Leonard said that the material was being prepared in that way, with a general statement supported by discussion of the situation

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at each branch and emphasis on the expansion of the volume of business and need for additional vault space, particularly in connection with the emergency program for the storage of reserve supplies of currency at the Reserve Banks and branches.

Chairman Martin then referred to the assumption by Mr. John A. Hannah of his duties as Assistant Secretary of Defense and said that, if the Board agreed, he would endeavor to get word to Mr. Hannah in some appropriate manner that pursuant to the policy established by the Board's resolution of December 23, 1915, he should submit his resignation as a director of the Detroit Branch of the Federal Reserve Bank of Chicago.

It was the view of the Board that Chairman Martin should take steps looking toward the submission by Mr. Hannah of his resignation from the board of directors of the Detroit Branch.

Governor Evans stated that inasmuch as the wage controls had now been removed, he wished to renew his suggestion that the salaries of the Board's chauffeurs, guards, and building maintenance personnel be increased.

The matter was discussed in the light of the consideration given at the meeting of the Board on January 7, 1953, and the understanding at that time that the Board would reconsider the matter at

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the end of April, when the authority for the wage stabilization regulations would expire, with a view to determining whether there should be a revision of the salary levels of the lower-paid employees on the Board's staff.

Mr. Allen was requested to proceed with a study of the situation and to make a recommendation to the Board as soon as possible.

Governor Robertson stated that the Executive Committee of the National Association of Supervisors of State Banks customarily meets in Washington each spring and that he would like to tell the Chairman of the Committee that, if such a meeting should be held in Washington this year, the Board would be pleased to have the group come to the building for lunch.

Governor Robertson was authorized to extend such an invitation.

There was a discussion of plans being made for the annual convention of the American Bankers Association, to be held in Washington this fall, particularly as to what the Board might do for the bankers attending the convention who are directors of Federal Reserve Banks and branches. There was general agreement with the suggestions that the directors might be invited to make the Federal Reserve building their headquarters and also to have lunch at the building at least one day during the convention. However, no definite conclusions were reached.

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Governor Robertson reported that, according to advice which he received informally from a representative of the Office of the Comptroller of the Currency, Secretary of the Treasury Humphrey had requested that Office to study whether better use could be made of the currency stocks, which might involve changing the law so as to grant permission to Federal Reserve Banks to pay out the notes of other Reserve Banks. Governor Robertson said he suggested that a letter regarding the question raised by Mr. Humphrey might be sent to the Board for its consideration and that he understood such a letter would be forthcoming.

Governor Robertson then reported that a member of the staff of the Comptroller's Office had called him on the telephone to say that that Office felt there was no real need for making a call on banks for condition reports this spring, that the feeling was shared by the Federal Deposit Insurance Corporation, but that the Comptroller's Office would be agreeable to making a call if the Board wanted it done. Governor Robertson said that the Division of Bank Operations was inclined to agree with the Comptroller's Office that a call probably was not essential but that the Division of Research and Statistics felt quite strongly that there was a need for the benchmark data that would be provided by the call. Therefore, Governor Robertson said, he requested

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Messrs. Riefler, Assistant to the Chairman, and Young, Director of the Division of Research and Statistics, to set forth in writing the reasons why the figures were needed, with the thought that if the reasons seemed impressive and the Board agreed, he would advise the Comptroller's Office that it was the view of the Board that the call should be made.

Governor Mills said that if the Division of Research and Statistics believed that the call would provide valuable information, it would be difficult to say that it should not be made since it places no serious burden on the banks or on the bank supervisory agencies.

Following discussion, the matter was referred to Governor Robertson with power to act.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 6, 1953, were approved unanimously.

Letter to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of January 23, 1953, in which you advise that Mr. Cecil W. Cotton is the principal organizer of a new national bank of which

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"he is to be president and that it is your wish that he serve out his present term as a director of the Oklahoma City Branch.

"As you know, the Board's regulations relating to the operation of Branches of Federal Reserve Banks provide that the directors appointed by the Board of Governors shall be persons who are not primarily engaged in banking and preferably are not directors of banks, although they may be stockholders. While this provision permits some latitude in the selection of directors, it follows the general principle established in the Federal Reserve Act, that some of the directors of the Federal Reserve Banks should not be associated with commercial banks. However, on a few occasions in the past, the Board of Governors interposed no objection to a Branch director, who had become a director of a commercial bank, continuing to serve as a director for the remainder of the current year.

"Mr. Cotton, it appears, will be more actively engaged in commercial banking than if he served only on his bank board but, in view of the circumstances described in your letter, the Board of Governors will interpose no objection to Mr. Cotton's continuing to serve as a director of the Oklahoma City Branch for the remaining portion of his term which expires December 31, 1953."

Approved unanimously.

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

"In accordance with the request contained in your letter of February 2, 1953, the Board approves the designation of Joseph S. Blanchard as a special assistant examiner for the Federal Reserve Bank of Boston for the specific purpose of rendering assistance in examinations of Depositors Trust Company, Augusta, Maine, The Merrill Trust Company, Bangor, Maine, The Hartford-Connecticut Trust Company, Hartford, Connecticut, Industrial Trust Company, Providence, Rhode Island and Rhode Island Hospital Trust Company, Providence, Rhode Island.

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"Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners."

Approved unanimously.

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

"You will recall that, during the meeting of the Conference of Presidents last September, it was mentioned that the Board had in mind arranging to have new members of its field staff of examiners observe operations at a Federal Reserve Bank for a period so that they might be better prepared to perform their duties with the examining staff. At that time, you mentioned that you would be glad to have some of these new men come to Philadelphia for indoctrination.

"It was our plan to send three new men to your Bank to work in the Audit Department for a period of three months, having in mind that the work of the Audit Department would give them an insight into the activities of various operating departments within a comparatively short time. Of course, we had in mind working out all details in advance of sending the men to your Bank, but due to a misunderstanding, one of the men reported at your Bank to begin his work before the formal arrangements had been made. The necessary immediate arrangements were made with General Auditor Haffner, and it is the purpose of this letter to request your approval of the plan.

"In addition to the man now in process of indoctrination at your Bank, Mr. A. S. Barnes, we wish to have Mr. Eugene W. Lowe report to Mr. Haffner on or about February 11, 1953. It is hoped that we shall be able to employ a third man in the near future, and the arrangements for his reporting for duty in Philadelphia will be made with Mr. Haffner. Each of these men would spend a period of about three months at your Bank.

"The men, while working at the Federal Reserve Bank of Philadelphia, will nevertheless be employees of the Board, and the Board will pay their salaries and all related payments,

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"together with their travel expenses and per diem in lieu of subsistence. It should be distinctly understood, however, that Mr. Haffner is at liberty to make use of their services in the same manner as if they were employees of the Reserve Bank.

"If these arrangements are in any way not satisfactory to you, we shall be glad to make whatever adjustments may be necessary.

"We greatly appreciate General Auditor Haffner's cooperative attitude in handling this matter, and have been impressed with the well-organized training program he has planned. We are sure that the program will be of great benefit to us in building up the quality of performance of the new members of our field staff."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This refers to your letter of February 2, 1953, requesting the views of the Board with respect to a draft of a proposed amendment to the law to make obligations of Federal Home Loan Banks eligible for 15-day advances by Federal Reserve Banks to their member banks.

"The Board of Governors does not favor extension of the categories of obligations which may be used as security for 15-day advances by Federal Reserve Banks to member banks. The authority for such advances as contained in the Federal Reserve Act originally related only to direct obligations of the United States and paper eligible for discount at Federal Reserve Banks. While the authority has been amended to include certain obligations arising as the result of the agricultural credit program and the Home Owners' Loan program, these amendments were made in the early 1930's when the affected segments of the economy were under severe strain and would hardly have been enacted except under the emergency conditions then prevailing.

"The Board feels that it is important in the current period that special privileges relating to obligations of

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"the Federal Government should not be extended to additional categories of securities. An action which has the effect of improving or strengthening the market for Federal Home Loan Bank obligations and increasing their attractiveness to commercial banks must at the same time improve the competitive position of such obligations as against obligations of the United States. In view of the difficult problems faced by the Treasury in managing the Federal debt in the period immediately ahead, we feel that any action at this time that might increase those problems would be ill advised. Furthermore, the Board's efforts to limit the expansion of bank credit through general measures of credit restraint would certainly not be assisted by any new legislation increasing the attractiveness of this type of obligation for commercial bank investment.

"The Board is not aware of any urgent need to improve the marketability of Federal Home Loan Bank obligations. The present security behind these obligations, coupled with the access which the Home Loan Banks have to the United States Treasury in times of emergency, has been sufficient to make their obligations a highly attractive and marketable instrument. There is no evidence which has come to our attention that the Home Loan Banks have had any difficulty in obtaining necessary funds in the market when they have had occasion to refund their outstanding obligations or expand their indebtedness. Moreover, under the provisions of section 10(b) of the Federal Reserve Act, Federal Reserve Banks are authorized to make advances to member banks on any security that is satisfactory to the Reserve Bank and under this authority obligations of Home Loan Banks could be the basis for Federal Reserve Bank advances should circumstances call for loans to member banks on that type of security."

Approved unanimously.



Secretary