

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 19, 1953. 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. Carpenter, Secretary  
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. Leonard, Director, Division of  
Bank Operations  
Mr. Vest, General Counsel  
Mr. Young, Director, Division of  
Research and Statistics  
Mr. Horbett, Assistant Director, Division of  
Bank Operations  
Mr. Hackley, Assistant General Counsel  
Mr. Cherry, Legislative Counsel

There was presented a request that John R. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations, be authorized to proceed to Philadelphia, Pennsylvania, during the period February 24-26, 1953, to accompany representatives of the Federal Reserve Bank of Boston on a visit to the Federal Reserve Bank of Philadelphia to observe and discuss the latter Bank's accounting procedures, this being in connection with the 1953 field survey program and a continuation of the survey at the Boston Reserve Bank.

Approved unanimously.

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Mr. Cherry discussed (1) a request from the House Committee on Government Operations for a report by the Board on Bill H. R. 121, to provide for the establishment of a commission to investigate and make recommendations with respect to the distribution of governmental functions and sources of revenue within the framework of Federal, State, and local systems of government, and (2) a request from the House Committee on Interstate and Foreign Commerce for a report on Bill H. R. 2970, to amend the Interstate Commerce Act in connection with certain aspects of railroad reorganization proceedings. He noted that the Chairman of the Board of Governors would be a member of the commission proposed to be established by Bill H. R. 121, while Bill H. R. 2970 contained a provision that in connection with a stock modification plan involved in a reorganization proceeding, the Interstate Commerce Commission might direct that the stockholders voting on such a plan send their votes to a bank or trust company approved by the Commission, such bank to have a capital and surplus of at least \$2 million and be a member of the Federal Reserve System.

For reasons stated by Mr. Cherry at this meeting and in memoranda which he sent to the members of the Board under date of February 18, 1953, it was agreed unanimously that the requests should be filed without reply unless subsequent developments should change the situation.

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With regard to the provision in Bill H. R. 121 that the Chairman of the Board of Governors should be a member of the commission contemplated by that bill, Governor Vardaman expressed the view that the chairmanship of the Board already was related to too great a number of outside activities, and he requested the General Counsel to prepare and submit to the members of the Board as a matter of information a memorandum showing the offices held by the Chairman of the Board by virtue of statutory provisions, Presidential executive orders, and other circumstances.

Mr. Cherry then referred to receipt by the Board of a request from the Senate Banking and Currency Committee for a report on Bill S. 892, to dissolve the Reconstruction Finance Corporation and transfer certain of its functions relating to national defense to other agencies of the Government. A memorandum on this matter had been sent by Mr. Cherry to the members of the Board under date of February 18, 1953.

After reviewing the principal provisions of the bill, which was introduced by Senator Byrd, of Virginia, on behalf of himself and several other Senators, Mr. Cherry said he had been informed by the Clerk of the Senate Banking and Currency Committee that the bill almost certainly would be taken up by the Committee at the earliest opportunity, which might be about the first of April, and that the Committee would want the views of the Board, particularly with reference to any additional authority for

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the Federal Reserve Banks to make or participate in loans to business enterprises. Mr. Cherry pointed out in this connection that although Bill S. 892 in its present form contained no provision with respect to the making or guaranteeing of loans to business by Federal Reserve Banks, it seemed likely that this subject would come up during Congressional consideration of the bill as it had in the past when similar bills were introduced. Last year, he recalled, Senator Robertson, of Virginia, was prepared to offer an amendment to section 13b of the Federal Reserve Act in connection with the Senate's consideration of a similar bill.

Mr. Vest reviewed efforts made by the Board at various times since the late 1930's in the direction of having section 13b liberalized through the elimination of certain restrictive provisions. He mentioned particularly Bill S. 408, introduced by Senator Tobey, of Vermont, in 1947. That bill, he recalled, would have in effect eliminated section 13b and substituted authorization for any Federal Reserve Bank to guarantee any loan to business up to 90 per cent of the loan, subject to a limitation on the aggregate amount of the guarantees.

Mr. Vest also called the attention of the Board to the provision of Bill S. 892 which would authorize the President of the United States to transfer, prior to January 1, 1954, to the Treasury, the Federal Reserve Banks, or some other agency the functions, powers, duties, and authority conferred on the Reconstruction Finance Corporation under section 303 of

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Executive Order No. 10161 with respect to the production defense loan program authorized by section 302 of the Defense Production Act of 1950.

During a discussion of the bill, Governor Vardaman stated reasons why he would be opposed in principle to legislation which would involve the Federal Reserve Banks in any program of business loans of the kind currently made by the Reconstruction Finance Corporation. He suggested that it might be desirable for Chairman Martin to discuss the situation with Senator Byrd with a view to ascertaining whether the latter had in mind any such transfer of authority.

At this point Chairman Martin and Mr. Marget, Director of the Division of International Finance, joined the meeting.

There followed a further discussion of Bill S. 892 but no conclusions were reached as to what steps should be taken by the Board at this time, Chairman Martin suggesting that before the Board took a position on the bill it would be well to have the views of the Treasury Department.

At this point Messrs. Thurston and Cherry withdrew from the meeting.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum submitted under date of February 17, 1953, by Messrs. Thomas, Leonard, and Young regarding a proposal to collect and compile data on investments of trust funds and pension funds. At the request of the Board, Mr. Young reviewed and amplified on the



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memorandum, which read as follows:

An ad hoc subcommittee of the System Research Advisory Committee has explored the desirability and feasibility of collecting and compiling data on investments of trust funds and pension funds. This subcommittee, which was under the chairmanship of Mr. Harold Roelse, Vice President, Federal Reserve Bank of New York, reported to the System Research Advisory Committee at its last meeting. The subcommittee recommended that the Federal Reserve System undertake to collect reports on investments of all common trust funds (annually) and also that it collect and compile similar data periodically (at least semi-annually) on all private pension funds of any substantial size. The subcommittee also explored the possibility of compiling data on investment of personal trust funds but concluded reluctantly that such a compilation, except for common trust funds, was not feasible at this time. A copy of the subcommittee's report is attached.

The System Research Advisory Committee considered the subcommittee report and determined that the recommendations contained therein should be favorably reported to the Board of Governors and the Conference of Presidents. We are informed by Mr. Malcolm Bryan, Chairman of the Presidents' Conference Committee on Research and Statistics, that the Presidents approved the recommendations contained in the report.

It is now recommended that the Board authorize the Division of Bank Operations and the Division of Research and Statistics to explore further the exact procedures which should be employed in collecting the data referred to and to make arrangements for the Federal Reserve Banks to transmit such data to the Board as can be appropriately obtained through that means. It is believed that this initial exploratory work can be carried forward reasonably rapidly by personnel already assigned to these two Divisions. As a practical matter it is envisaged that the Division of Bank Operations will carry forward the exploratory work on common trust funds and that the Division of Research and Statistics will work on the investments of private pension funds.

As soon as the preliminary arrangements have been completed and it is possible to assess the regular requirement for technical and clerical assistance to establish and maintain

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these series, we will report again to the Board with a specific recommendation as to the position or positions, if any, which may need to be established in order to put the proposed series in operation.

Our tentative analysis would indicate that both of the series should be established and maintained as a responsibility of the Division of Bank Operations and that it is likely that only one additional statistical clerk or clerk-stenographer will be needed.

If reliable data in these areas can be obtained, it should be of considerable interest and usefulness, both to the Board and to others in the financial community. Private pension funds have grown very rapidly in recent years and their investment policies and holdings have become an important factor in the securities market. There are no regularly compiled data in this area at the present time, except some figures collected by the Treasury as to holdings of Government securities by a number of such funds. The absence of data as to other types of holdings makes it difficult to assess the growing importance of these investment institutions.

If the Board authorizes us to carry on with the establishment of this series, we will of course consult with the Bureau of the Budget and obtain their approval before the series is formally instituted.

During the course of Mr. Young's comments, Chairman Martin, Mr. Carpenter, and Mr. Hackley withdrew from the meeting.

In response to an inquiry by Governor Robertson as to the value of collecting the data referred to, Mr. Young, addressing himself first to the pension funds, stated that such funds have been developing rapidly over the past 15 or 20 years, that at present a large volume of savings is being channeled through that mechanism, that the funds are an important factor in the investment markets, and that by having information regarding these investments, the System would be in a better position to analyze the

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current flow of investment funds and thereby to evaluate the total financial situation. He went on to say that there appeared to be considerable interest outside the System in data regarding pension funds, the treasurers of several large corporations having indicated to representatives of the System that they would find such information extremely useful and the chairman of the System ad hoc subcommittee which explored the matter having gained the impression from consulting with officers of a number of banks which serve as trustees of pension funds that they would be considerably interested in having such data available. Regarding common trust funds, Mr. Young said that they also had developed rapidly since the mid-1930's and were becoming quite an important factor in the investment market.

Mr. Thomas then made a statement in which he said that the System has been moving more and more in the direction of analyzing the sources of savings by individuals and businesses, what channels investments go through, and what practices and principles motivate the various investment groups. He said that in these analyses one large gap has been the lack of data on investments of trust and pension funds, a gap which has become increasingly important because of the growth of those funds. Mr. Thomas felt that the principal difficulty with the recommendation of the subcommittee was in its modest character, and he expressed the personal feeling that it would be well, if at all possible, to go further and collect



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data on personal trust funds, even though that might necessitate substantial changes in the methods which trust companies use in keeping their accounts so as to bring together statistics compiled on a uniform basis. He thought that the data which would be collected and compiled pursuant to the subcommittee's recommendation were sufficiently important in themselves, however, to justify their collection, and that this would not involve too much work on anyone's part. After giving estimates on the total volume and rate of growth of common trust funds and pension funds, Mr. Thomas went on to say that the data to be collected would be significant not only because of the magnitude of the funds but from the point of view of indicating the attitudes of investing officers in placing the funds.

In reply to an inquiry by Governor Robertson, Mr. Thomas said that he would not want to predict whether upon further study it might be found feasible to attempt to compile statistics on personal trust funds. He brought out that the matter had been explored at various times in the past but that there had always been many obstacles, and he noted that the subcommittee, upon exploration, concluded that such a compilation would not be feasible at this time.

There followed a brief discussion of investment trusts, during which it was stated that fairly satisfactory statistics with regard thereto are available through various sources, including the Securities Exchange Commission, and that such information would be correlated with that proposed to be obtained on the common trust and pension funds.

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Governor Vardaman then commented to the effect that, while he recognized the growing importance of the funds in question and the desirability of having data concerning them, he would have some hesitancy in approving the proposal now presented in view of the somewhat limited scope of the project, feeling that it might be better not to go forward with the collection and compilation of the data unless and until a way could be found of covering the field more completely. He noted that a part of the statistics would have to be obtained from nonbanking institutions on a voluntary basis and stated that it had never been demonstrated to his satisfaction in the past that it was possible to get reports freely enough or in sufficient detail on a voluntary basis to eliminate the possibility of substantial inaccuracies.

Commenting on Governor Vardaman's remarks, Mr. Thomas said that partial statistics are now available, that decisions are being made on the basis of what is available, and that additional information obtained in the manner proposed would represent a substantial improvement by supplementing current data in those areas where organized information is known to be available. Mr. Young added that there was reason to believe from contacts made by the subcommittee that the desired information would be supplied willingly on a voluntary basis.

Governor Mills remarked that institutional investors move along

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certain lines, that it would be desirable to know what the investment trend is, and that the data in question would afford at least an indication of investment thinking that would fill an important gap existing at the present time. He also said that the extent of outside interest in this information struck him as very important. It was his view that if it were possible to assist the investment fraternity by furnishing data in which a definite interest had been expressed and at the same time improve the System's knowledge in the particular field, the project would be justified.

There followed a discussion of the personnel which might be required in connection with the project, during which it was stated that as far as the Board was concerned the work involved, as indicated in the above memorandum, probably would not be burdensome and that, while a greater burden might be expected to fall on the Federal Reserve Banks, it would be difficult to estimate at this time the extent to which personnel would have to be assigned to the project.

Following further discussion, the recommendation contained in the memorandum from Messrs. Thomas, Leonard, and Young was approved unanimously, with the understanding that the project would be carried forward on an experimental basis.

At this point Messrs. Leonard and Horbett withdrew from the meeting.

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Pursuant to a request made by Chairman Martin before he withdrew from the meeting, Mr. Marget, who, with Chairman Martin, had attended a meeting at the Treasury Department this morning (at which the Secretary of the Treasury, other Treasury officials, and representatives of the Export-Import Bank were also present) summarized the discussion at that meeting, which concerned a proposed loan to Brazil by the Export-Import Bank in the amount of \$300 million to liquidate the backlog of debts payable on account of imports from the United States. After stating reasons why members of the Board's staff felt that a loan in a lesser amount would be preferable, Mr. Marget commented on the Brazilian financial and economic situation and there was a general discussion based on his remarks.

At this point Messrs. Riefler, Thomas, Vest, Young, and Marget withdrew from the meeting.

Governor Szymczak reported that, in accordance with the understanding at the meeting on February 17, 1953, Chairman Martin had talked by telephone with Mr. Coleman, Chairman of the Federal Reserve Bank of Chicago, informing him of the Board's intention to appoint either Mr. B. R. Prall, President of Butler Brothers, Chicago, Illinois, or Mr. Paul E. Feucht, President of the Chicago and North Western Railway, Chicago, Illinois, as Class C director of the Chicago Bank for the unexpired portion of the three-year term ending December 31, 1954, and as Deputy Chairman for the



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remainder of the year 1953, that Mr. Coleman indicated he was not acquainted personally with Mr. Prall or Mr. Feucht but that he would have no objection to either, and that it was Chairman Martin's suggestion that the Board proceed to make inquiry through Mr. Coleman whether Mr. Prall would accept the appointment if tendered.

Thereupon, it was voted unanimously to request Mr. Coleman to ascertain and advise the Board whether Mr. Prall would accept, if tendered, appointment as Class C director and as Deputy Chairman of the Chicago Reserve Bank.

There was a discussion of a question raised by Messrs. Hodgkinson and McCormick, members of the executive committee of the Conference of Chairmen of the Federal Reserve Banks, as to whether a meeting of the Conference should be held this spring.

Mr. Sherman stated that he understood Mr. Hodgkinson had discussed the matter with Chairman Martin and that both Mr. Hodgkinson and Mr. McCormick were of the opinion that it might be better to postpone the next meeting of the Conference until this fall unless there was an important reason for having a meeting this spring. However, if it should be decided to hold a meeting this spring, they would prefer that it be held at a relatively early date.

Following a discussion, it was decided to consider the matter further at the meeting tomorrow when Chairman Martin would be present.

Reference was made to a memorandum dated February 12, 1953, from

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Mr. Kelleher, Assistant Director, Division of Administrative Services, to Mr. Bethea, Director of that Division, regarding surveys that had been made of the lighting facilities in the Federal Reserve building.

The memorandum stated that the lighting facilities had been surveyed by a representative of the Bureau of Standards and a representative of the Potomac Electric Power Company; that the surveys, which were conducted independently, showed that the illumination levels were below generally accepted standards (illumination levels in the building being in the neighborhood of 20 footcandles whereas standard levels run from 30 to 45 footcandles); and that the reports differed from previous findings in that both men agreed that the proper lighting levels could be attained, without additional wiring, by the replacement of the present incandescent fixtures with fluorescent lighting. The memorandum further stated that the surveys covered the entire building except for the offices of the members of the Board, where no change in the lighting facilities was recommended because of the decorative fixtures involved; that, after considering all factors, two fixtures were recommended (the Sunbeam and the Miller), both of which would meet the specifications; and that, accordingly, two each of the Sunbeam and Miller fixtures had been installed in Rooms 1240 and 1242 in order that a comparative test might be made as to lighting values and appearance. The memorandum concluded by stating

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that the estimated cost of a complete installation of the Miller fixture was \$69,291.34, as against \$95,285.34 for the Sunbeam fixture; that those estimates would include outside labor for installation; that as a means of reducing the cost, consideration was being given to using the Board's staff for making the installation, possibly with the addition of temporary help; that, if an installation by the Board's staff seemed practical, a revised estimate would be submitted reflecting the change in costs; and that suitable fixtures for the ground floor, installed by the Board's staff, would cost approximately \$3,000.

During the course of a summarization by Governor Evans of the matter covered in the above memorandum, Mr. Bethea, Director of the Division of Administrative Services, entered the room.

In response to a question by Governor Robertson as to why the offices of the members of the Board were not included in the survey, Mr. Bethea indicated that the decorative fixtures of those offices were such that a different approach to the problem of affording adequate lighting would be necessary, but that the Division of Administrative Services would be glad to have the lighting in any one of those offices studied.

Governor Vardaman then inquired whether consideration had been given to using stronger incandescent bulbs, to which Mr. Bethea responded that that would result in an overloading of the circuits. He went on to state that for a number of years there had been complaints from various

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offices about the inadequacy of the lighting, that when surveys were made in the past, it was concluded that fluorescent lighting could not be installed without a substantial rewiring job, and that this had now been found to be unnecessary. Mr. Bethea also stressed that there were many details yet to be worked out if the Board decided to proceed with the change to fluorescent lighting, including the negotiation of contracts, and that in the circumstances the Division of Administrative Services desired to know the general attitude of the Board before proceeding further. He pointed out that no provision had been made in the Division's 1953 budget for the cost involved.

In reply to a question by Governor Robertson, Mr. Bethea stated that there would be practically no salvage value in the present fixtures.

There followed a discussion of whether it would be preferable to employ outside contractors to do the job or use the Board's staff, during which Mr. Bethea explained some of the factors that would have to be taken into account in making a decision, such as the length of time which would be involved in making the installation.

At the conclusion of the discussion, it was understood that the members of the Board would inspect the sample fixtures in Rooms 1240 and 1242 with a view to further consideration of the matter at another meeting of the Board.

The meeting then adjourned. During the day the following additional



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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 February 18, 1953, were approved unanimously.

Memorandum dated February 17, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Doris P. Warner, Economist in that Division, be accepted, to be effective, in accordance with her request, as of the close of business February 14, 1953.

Approved unanimously.

Letter to the Board of Directors, Trenton State Bank, Trenton, Michigan, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment and operation of a branch at 2023 West Road within the city limits of Trenton, Michigan, by the Trenton State Bank, provided such branch is established within six months from the date of this letter and that prior formal approval of the appropriate State authorities is obtained."

Approved unanimously, for  
transmittal through the Federal  
Reserve Bank of Chicago.

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

"Reference is made to your letter of February 4, 1953 in which you request that the Board of Governors approve an

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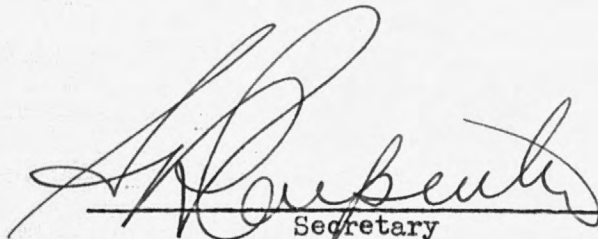
"increase of 6.6 per cent in the salary structure of the Detroit Branch of the Federal Reserve Bank of Chicago.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades of the Detroit Branch of the Federal Reserve Bank of Chicago, effective February 9, 1953.

<u>Grade</u>	<u>Minimum</u>	<u>Maximum</u>
1	\$ 2087	\$ 2823
2	2265	3065
3	2469	3340
4	2708	3664
5	2949	3989
6	3261	4413
7	3585	4850
8	3897	5272
9	4299	5817
10	4700	6360
11	5147	6963
12	5682	7688
13	6307	8533
14	6977	9439
15	7691	10405
16	8405	11371

"The Board approves the payment of salaries to the employees other than officers within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than May 1, 1953."

Approved unanimously.

  
Secretary