

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 26, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 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. Vest, General Counsel
 Mr. Young, Director, Division of Research
 and Statistics
 Mr. Allen, Director, Division of Personnel
 Administration
 Mr. Cherry, Legislative Counsel

Mr. Cherry discussed Bill S. 1081, introduced yesterday by Senator Capehart, of Indiana, on behalf of himself and eleven other Senators, to provide authority for temporary economic controls. He stated that this bill, which was introduced as an alternative to Bill S. 753, previously introduced by Senator Capehart, would authorize the President of the United States, after consultation with a National Advisory Council created by the bill, to invoke for a period not exceeding 90 days a price, wage, and rent freeze if the President found that serious economic dislocations were threatening the national security or economic stability. In the event of a state of war, the President would not be required to consult with the Council before imposing

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such temporary controls.

Mr. Cherry said that, upon inquiry, he was advised by the Staff Director of the Senate Banking and Currency Committee that the omission of reference to consumer and real estate credit controls in the bill was intentional. Mr. Cherry went on to say, however, that when the Committee held hearings on the bill, the whole subject would, of course, be open for discussion.

Mr. Thurston commented to the effect that in any testimony before the Committee, Chairman Martin might wish to bring out, so that there would be no misunderstanding, the fact that the President, under his emergency powers has authority to invoke controls over consumer and real estate credit pursuant to the Trading with the Enemy Act of 1917.

Prior to this meeting there had been circulated among the members of the Board a memorandum dated January 21, 1953, from the Division of Personnel Administration recommending that the Board's outstanding statement of policy with respect to attendance of Federal Reserve Bank personnel at schools of banking be amended so as to apply to all such schools sponsored, conducted, or approved by banking associations rather than specified schools. In addition, there had been sent to the members of the Board copies of drafts of two letters to the Presidents of all Federal Reserve Banks, the first reflecting the above-mentioned recommendation with regard to attendance at banking schools and the second reissuing in

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a single letter outstanding letters to the Reserve Banks concerning participation in and support of activities of the American Institute of Banking.

There was a brief discussion, in the light of a question raised by Governor Mills, regarding the procedure under which each Reserve Bank advises the Board of the total number of officers and employees it proposes to send to the various banking schools, and the Board, upon receipt of such information, advises each Bank whether the total proposed Federal Reserve enrollment is satisfactory from the standpoint of the total student body of each school. It was stated that the plan had worked well to date as a coordinating mechanism and that the Reserve Banks had raised no question with regard to clearing their plans through the Board.

Thereupon, unanimous approval was given to letters to the Presidents of all Federal Reserve Banks reading as follows:

"The Board's letter of June 18, 1948 (S-1024; F.R.L.S. #9092) transmitted an amended statement of policy relating to the selection of officers and employees of the Federal Reserve Banks to attend three specified schools of banking. Subsequently, on November 15, 1949, (S-1125; F.R.L.S. #9092), the Board added a fourth school of banking in which participation of officers and employees of the Federal Reserve Banks was authorized.

"Since the Board's letter of November 15, 1949, several additional banking schools have come into existence. The Board continues of the belief that there should be a System policy with respect to participation in these schools and that it is desirable for the System to bear certain costs as a means of encouraging such participation. It also feels that the responsibility for the selection of the schools and

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"the personnel to attend rests primarily with the individual Federal Reserve Banks. Accordingly, it has amended the first sentence of the statement of policy transmitted with S-1024 so as to permit participation in such banking schools as are sponsored, conducted, or approved by banking associations, rather than to specify a list of schools to which the statement of policy applies. The first sentence of the second paragraph also has been changed to refer to schools rather than to a specified school. No other changes have been made in the statement which, as amended, reads as follows:

"Selection of Officers and Employees to Attend Banking Schools

"The Board feels that officers and employees of the Federal Reserve Banks should be encouraged to participate in banking schools that are sponsored, conducted, or approved by banking associations, and that the Federal Reserve Banks should follow a System policy which is as nearly uniform in its application as may be practicable in view of the varying local conditions and responsibilities of the individual Federal Reserve Banks. To this end the Board would interpose no objection to the payment by each Federal Reserve Bank of the transportation expenses to and from the schools, the registration fees, resident and extension tuition fees, and the dormitory and dining hall charges of officers and employees selected to attend. The Board also would interpose no objection to the granting to such officers and employees of leave of absence with pay of such duration as may be necessary to enable them to attend the resident sessions of the schools, in addition to their regular annual vacation.

"Under the policy that has been in effect in the past, total attendance at schools of banking of representatives from the Federal Reserve System has been limited in order to prevent System representation from becoming disproportionate in relation to the entire student body of the schools. While the Board does not believe that it should provide for a specific limitation on the number of officers and employees that might be sent to the banking schools by any Federal Reserve Bank, an arrangement should be retained to review the situation with respect to the total number proposed to be sent by the Federal Reserve Banks and the Board each year. Accordingly, it is requested that as

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"soon after the first of each year as possible and not later than February 1, each Federal Reserve Bank advise the Board of the total number of officers and employees it proposes to send to the various banking schools. As soon as this advice is received from all of the Federal Reserve Banks each Bank will be informed whether the total number proposed to be sent is too large in relation to the total student body of each school and, in the event it is, the necessary reduction will be worked out.

"The advice sent to the Board regarding the prospective attendance of officers and employees at each banking school should include the following:

- (a) Total number who will attend forthcoming session at Bank's expense
- (b) Total number who will attend forthcoming session entirely at their own expense during their annual vacations
- (c) Number of first-year students
- (d) Number of second-year students
- (e) Number of third-year students
- (f) Number who have attended the first or second sessions, or both, but who will not attend the forthcoming session.

"This letter supersedes and cancels that portion of the Board's letter of June 18, 1948, S-1024, which related to graduate schools of banking and the Board's letter dated November 15, 1949, S-1125."

"The Board's letter of October 30, 1936 (X-9729-b; F.R.L.S. #9092), as amended from time to time, including changes contained in the Board's letters of September 10, 1947 and June 18, 1948 (S-992-a and S-1024; F.R.L.S. #9092), transmitted a statement of the Board's position with respect to participation in and support of activities of the American Institute of Banking by the Federal Reserve System. In connection with a revision at this time of S-1024, which related primarily to graduate schools of banking, the statement in X-9729-b, as amended, with respect to participation in A.I.B. activities is being re-issued as a single, separate statement based on the various letters formerly contained in F.R.L.S. #9092. No changes have been made in the substance of the statement which, as re-issued, reads as follows:

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"Participation in and support of activities of the American Institute of Banking by the Federal Reserve System Officers' Interest and Cooperation"

"The management of Federal Reserve Banks should encourage employees to interest themselves in A.I.B. activities and to enroll in study courses, and otherwise take the leadership in furtherance of sound banking methods and the development of efficient banking personnel. Reserve Bank officers would make a substantial contribution toward the accomplishment of these objectives by showing a cooperative attitude toward A.I.B. activities in their contacts with department managers, supervisors, and assistants, by granting necessary and reasonable time to employees to perform creditably duties assigned to a chapter appointment, by accepting assignments as class instructors where possible, and by attending the annual banquet of the local chapters. However, Federal Reserve Bank employees should not be subjected to any pressure to enroll in A.I.B. study courses, and, while proper recognition should be accorded for scholastic achievement in such courses when promotions are being considered, the importance of completing A.I.B. courses should not be emphasized to the detriment of employees who have comparable qualifications by way of education and experience obtained from other sources.

Contribution to the Support of Local Chapters

"Each Federal Reserve Bank and branch may make an equitable contribution to the approved budget of the local chapter of the A.I.B. on the basis of the proportion of its eligible employees to the total eligible employees in other contributing banks of the community, with the understanding that all or most of the banks in the community are 'contributing banks' and that the term 'total eligible employees' in a Reserve Bank or branch shall be that number remaining after guards, elevator operators, building help, janitors, and other similar employees have been deducted.

"Refunds made by a chapter for scholastic endeavor should be eliminated and considered as a separate item in computing the bank's or branch's proportionate contribution to the chapter budget.

Membership Dues, Tuition Fees, Cost of Textbooks, and Other Expenses

"Federal Reserve Bank officers and employees enrolling in A.I.B. courses leading to a prestandard or standard certificate

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"should assume personally the expense of membership dues, tuition fees, and cost of textbooks. Except under conditions such as those stated in the following paragraph, Federal Reserve Banks or branches should not provide for pay roll deductions to take care of an individual's educational expenses, since it is understood that tuition fees may be paid on an instalment basis and that students requiring financial aid may obtain scholastic loans from funds which the chapter has available for the purpose. On the other hand, as an incentive and reward for scholastic endeavor, the Reserve Banks may, in their discretion, refund tuition fees and the cost of textbooks to such of their employees as complete A.I.B. study courses with a good scholastic average as distinguished from barely passing grades.

"The exception referred to in the foregoing paragraph regarding pay roll deductions may apply in a case where A.I.B. courses are given at the evening school of a local university, where neither through the local A.I.B. chapter nor the university are arrangements available for paying tuition on an instalment basis or for obtaining loans for the purpose. The Board sees no objection to use of the employees' loan fund, established with the Board's approval, to make such loans and, for the sake of morale, to extension of the same privilege to employees of the branches of a Federal Reserve Bank.

Honor Students and Other Delegates to the National Convention

"The selection of delegates to be sent by a Federal Reserve Bank to the A.I.B. national convention should rest in the discretion of the Bank, but the following order of precedence warrants consideration:

First choice to be the honor student achieving the highest scholastic average.

Second choice to be any officer or employee who is president of the local chapter, chairman of a national committee, or a speaker at a departmental conference, and,

Third choice to be any officer or employee who has been elected as a delegate by the local chapter.

No officer or employee should be sent to more than one national convention in any four-year period, except in the case of an

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"officer or employee becoming president of his chapter. The number of Reserve Bank delegates should not exceed a reasonable percentage of the Bank's membership in the local chapter, say four per cent.

"Federal Reserve Banks may, in their discretion, pay the whole or any part of the expenses of a reasonable number of delegates to the national convention, but the following allowances seem equitable: that each Federal Reserve Bank grant leave of absence with pay to all of its delegates for such period as may be required to attend the national convention in addition to the regular annual vacation allowance; that the Reserve Banks limit the payment of full expenses to the honor student delegate and assume only the transportation expenses to and from the convention city in the case of other delegates; that the Reserve Banks not adopt a more liberal policy than that generally followed by other local banks with respect to their delegates; and that, if any Reserve Bank representative is allowed a sum by the chapter for the trip, the Reserve Bank's contribution should not exceed the difference between the amount allowed other delegates and the amount contributed by the chapter.

Chapter Banquets

"Federal Reserve Banks in their discretion may pay a portion of the cost of tickets to the annual chapter banquet for all employees who are chapter members, and, as a special recognition, pay the entire cost for those who have completed since the last banquet the courses necessary for a pre-standard or standard certificate and for those employees actively engaged in chapter work or administrative work.

"This letter supersedes and cancels the Board's letters of October 30, 1936 (X-9729-b) and September 10, 1947 (S-992-a) and that portion of the letter of June 18, 1948 (S-1024) relating to A.I.B. activities."

At this point Mr. Allen withdrew from the meeting.

Chairman Martin referred to a memorandum addressed to the heads of executive departments and agencies by the President of the United

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States under date of February 25, 1953, a copy of which had come to the Board, concerning Senate Joint Resolution 1, "proposing an amendment to the Constitution of the United States relative to the making of treaties and executive agreements", and Senate Joint Resolution 2, "to impose limitations with regard to Executive agreements". The memorandum requested the head of each department and agency to examine the effects which these joint resolutions would have on matters coming within the jurisdiction of his department or agency, to prepare an official statement of views concerning them, and to ask the Senate Committee on the Judiciary for an opportunity to appear and testify if his agency was affected by the resolutions. The memorandum further requested that a copy of any statement so prepared be forwarded to the White House by March 2, 1953, and that the counsel or other appropriate representatives of the affected departments and agencies be present at a meeting to be held at the White House at 11:00 a.m. tomorrow to effect coordination of the efforts of the various departments and agencies.

Following discussion, unanimous approval was given to a letter to the President in the following form, with the understanding that the Secretary would talk with the appropriate person on the White House staff and state that the Board would be glad to have a representative at the meeting to be

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held tomorrow, if that was desired, but that, in view of the circumstances, the Board questioned whether it was necessary:

"This refers to your memorandum of February 25, 1953, regarding S. J. Res. 1 'Proposing an amendment to the Constitution of the United States relative to the making of treaties and executive agreements', and S. J. Res. 2 'To impose limitations with regard to Executive agreements'.

"In view of the nature of the functions performed by the Board of Governors and the Federal Reserve Banks, the Board does not feel it would be in a position to offer statements or comments of sufficient relevancy to warrant asking to testify on the joint resolutions. This was the view of the Board when similar resolutions were under consideration in June of last year.

"However, the Board will watch closely developments in this matter so that it can be prepared to act promptly if the proposed resolutions should be expanded so as to affect Federal Reserve operations."

Secretary's Note: Pursuant to the above action, the Secretary talked with a member of the White House staff, who advised that the question of representation at the meeting tomorrow was left for the determination of each agency and that it would be entirely satisfactory for the Board not to be represented.

At this point Mr. Cherry withdrew from the meeting.

Chairman Martin then referred to his comments at the meeting on February 17, 1953, regarding Secretary of the Treasury Humphrey's proposed study of the amount of money that might be expended by the Government without serious injury to the economy and said that Mr. Young had prepared

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a memorandum highlighting the nature of the problem which had been sent to the Treasury and copies of which were being sent to the other members of the Board for their information.

Mr. Young said it was his general conclusion, bearing in mind that the problem was hard to deal with in more than general terms, that, taking different criteria that might be used, the current level of Government expenditures is pressing against the sustainable limit in a situation short of war where the Government is undertaking to avoid any serious detrimental effects on the standard of living.

During the course of the foregoing discussion, Governor Vardaman joined the meeting.

Chairman Martin stated that he had reviewed a draft of the revision of the booklet, "The Federal Reserve System, Its Purposes and Functions", and that in his opinion the draft represented a distinct improvement over the current edition. He suggested that a copy of the draft be sent to each member of the Board with a view to obtaining their comments and proceeding with the printing of the booklet as soon as possible.

Prior to this meeting there had been circulated among the members of the Board a memorandum dated February 20, 1953, from Governor Szymczak reading as follows:

"At a meeting on January 10, in connection with a discussion of a gold loan by the Federal Reserve Bank of New York to the Central Bank of Bolivia, some question was raised as to the adequacy

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"of the present procedures with respect to the handling of such loans and it was understood that the procedure would be reviewed.

"In my opinion, the existing procedures, outlined in the attached memorandum from Mr. Marget, dated February 16, 1953, are entirely adequate to enable the System to function effectively in this field and discharge its legal responsibilities. Should any member of the Board have any question regarding the matter, I would be glad to discuss it or, if desired, the matter can be reviewed at a meeting of the Board."

It was agreed unanimously that the procedures outlined in Mr. Marget's memorandum, quoted below, were adequate and that no change should be made in them at this time:

"As you requested, we have outlined below the present procedure for extending gold loans from Federal Reserve Banks to foreign monetary authorities:

- (1) Borrower makes application to the Federal Reserve Bank of New York.
- (2) If it appears that the application may lead to an acceptable loan, Federal Reserve Bank of New York carries on negotiations with applicant; staff of New York Bank discusses proposal with Board's staff; if it appears that any question of policy may be involved, matter is brought to attention of Board member dealing with international work.
- (3) When a definite proposal has been developed, Board's staff brings it to attention of Department of State and obtains memorandum from Department to the effect that the proposed loan is not inconsistent with United States foreign policy; proposal is also discussed at staff level with any other agencies which may be concerned, such as MSA or Treasury.
- (4) Proposal is submitted for approval of Board of Directors of Federal Reserve Bank of New York.
- (5) Proposal is submitted (by Division of International Finance, with concurrence of Legal Division) for approval of Board of Governors.
- (6) After approval by Directors of New York Bank and by Board of Governors, New York Bank makes specific offer of loan and, subject to final working out of detailed papers, concludes actual loan contract with borrower.

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"(7) Board notifies National Advisory Council; Federal Reserve Bank of New York notifies other Federal Reserve Banks and offers them participation in the loan.

"Where there is a proposal to renew a gold loan that is already outstanding, the procedure is generally similar to that outlined above for the making of a new loan. In some cases, proposed renewals within specified time limits are cleared with the Board and/or the Department of State at the time of clearance of the original loan. However, the borrower is not informed of this, and if a renewal is desired the request is made to the Federal Reserve Bank of New York in the same manner as in the case of any other renewal. The only difference is that the Federal Reserve Bank of New York is then free to grant or refuse the renewal without having to obtain the concurrence of the Board and/or the Department of State.

"The procedure outlined above has been consistently followed over recent years, with generally satisfactory results. The record indicates that the Federal Reserve Bank of New York has never failed to inform the Board organization of all loan requests, and although the Bank and the Board staff may occasionally have had different opinions as to whether any particular loan involved questions of policy needing to be discussed at an early stage, the staffs of the two institutions have now developed a very satisfactory understanding on this subject.

"When a staff recommendation has been agreed, it is in every case submitted to the Board for its approval. Thus, if a Board member feels that a proposed gold loan may raise special policy issues, it is possible for him to ask for full Board discussion before the proposal is approved."

Chairman Martin stated that another meeting of the Defense Mobilization Board would be held tomorrow at 10:30 a.m., that the principal topic listed for discussion was the "mobilization base", that a large document on that subject had been received, and that he had turned the document over to Mr. Young for review.

Mr. Young stated that the document constituted a carefully worked out blueprint of mobilization plans, assuming a three-year period of military effort, in terms of military requirements as supplied by the defense

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agencies up to this point. From that standpoint, he said, the document was very informative, but it did not go into the question of where the money would come from to support the program or the question of what controls would need to be placed on the economy in an emergency. He said that the Board might want its staff to study what implications the program would have from the standpoint of monetary and credit and debt management policy, having in mind that decisions would have to be made swiftly in the event of an emergency and that it might be possible to profit from experience gained with the problems which were faced during World Wars I and II. He went on to say that a serious study by the staff along those lines would, of course, involve a considerable amount of time.

Chairman Martin said he might comment at the meeting tomorrow that, while the document appeared to be a good professional blueprint for mobilization, the raising of the money was another problem. He saw no harm in the Board's staff perusing the document to study how the Board would fit into the program but said that he doubted whether a detailed study of the document by the staff would be warranted until the Office of Defense Mobilization stated it was a blueprint of the plan on which that Office would want to work.

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 February 25, 1953, were approved unanimously.

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Memorandum dated February 24, 1953, from Mr. Allen, Director, Division of Personnel Administration, recommending that the resignation of Lois L. Waller, Personnel Clerk in that Division, be accepted to be effective, in accordance with her request, as of the close of business February 28, 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 18, 1953, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Boston, for the specific purpose of rendering assistance in the examination 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.

Robert P. Stetson	Rene A. King
Robert S. Tannebring	Harold J. Cormier
Stanley H. Jacobsen	Alfred J. Morrissey
David M. Law	James M. Gaffney
Arthur E. Crowe	John J. Glennon"

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 20, 1953, the Board approves the appointment of Dexter Milton Stowell as an assistant examiner for the Federal Reserve Bank of Boston.

"Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of February 18, 1953, the Board approves the appointment of C. Ward Bettes as an assistant examiner for the Federal Reserve Bank of Cleveland.

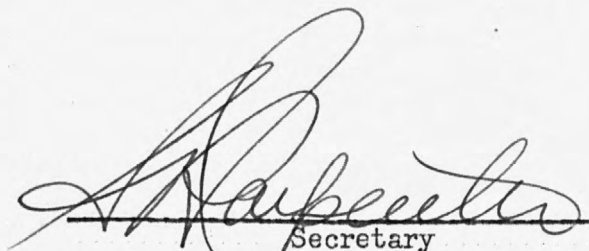
"Please advise us of the date upon which the appointment becomes effective and also as to the salary rate."

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of February 20, 1953, the Board approves the designation of J. Lander Allin, Jr. as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.



Secretary