

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 9, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Allen, Director, Division of
Personnel Administration
Mr. Cherry, Legislative Counsel

At Chairman Martin's request, Mr. Cherry gave a brief review of legislative developments during the past week. In his remarks, Mr. Cherry referred to H. R. 3603, a bill 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. Under date of March 4, 1953, the Board received a routine request from the House Committee on Government Operations for a report on the bill, which proposed to include as one of the 19 members of the commission the Chairman of the Federal Reserve Board. Mr. Cherry stated that a member of the staff of the House Committee on Government Operations had indicated an interest in knowing the views of the Board as to whether the Chairman of the Board should be included on the commission. Mr. Cherry added that it did not seem necessary to respond

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to the request at this time but that he would keep in touch with the committee concerning developments in connection with the proposed legislation and bring the matter to the Board's attention if it appeared that the bill was to be taken up for active consideration.

Chairman Martin suggested that no report be submitted at this time, adding the comment that if it seemed desirable to report later on he would be inclined to say that he questioned the need or advisability for inclusion of the Chairman on such a commission, but that if the Congress wished to have him serve he would, of course, be glad to do so.

Mr. Cherry withdrew from the meeting at this point.

The Secretary referred to the action of the Board on March 18, 1952 in approving a replacement of the existing Federal Reserve Leased Wire System by a communications system to be installed by American Telephone and Telegraph Company with a single switching center located at the Federal Reserve Bank of Richmond. He stated that the Richmond Federal Reserve Bank had at first thought it could supervise the center with a man from the Richmond Bank, who had had no experience in switching turret operations, but that the American Telephone and Telegraph Company, the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations, and he had advised against such a course. After considering these opinions, the Bank concluded that it should not undertake the operation of the switching center without the supervisory services of a person thoroughly experienced in such work,

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and also that the best available person for this purpose was M. P. Flagg, Assistant Chief Operator in the Board's Telegraph Offices. Mr. Flagg had indicated he would like to accept the position only if he could continue as a member of the Board Plan of the Federal Reserve retirement system which would provide greater benefits in the event of death over the next few years than would be available under the Bank plan. Mr. Carpenter went on to say that in discussing the matter with President Leach of the Richmond Bank, he had indicated that under the circumstances he would be willing to recommend to the Board that Mr. Flagg be transferred from the Board's offices to the Richmond Bank but retained on the Board's payroll, so that he could continue as a member of the Board Plan of the retirement system. Mr. Carpenter added that the Richmond Bank also felt that G. L. March, Operator of Tabulating Equipment in the Machine Tabulation Section of the Board, would be desirable as a second man in the switching center of the new communications system, that the proposed arrangement for keeping the two men on the Board's payroll while working at a Federal Reserve Bank was unique in that the salaries of the telegraph operators were prorated among all Federal Reserve Banks whether the switching center was located in Washington or Richmond, and that while there were objections to the proposed arrangement, he would not consider it as one which would set a precedent which would cause difficulty in the future or be a precedent for future cases.

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Mr. Allen recalled the understanding at the time the Board Plan was established in the retirement system in 1943 and 1944, stating that the Reserve Banks had voted unanimously not to permit individuals who might transfer from the Board to a Reserve Bank to continue in the Board Plan and that this position had been carried over into the rules and regulations of the retirement system. Mr. Allen felt that the proposed arrangement whereby Messrs. Flagg and March would be retained on the Board's payroll while working at a Federal Reserve Bank would, in effect, break the rules of the retirement system and that the arrangement might cause some problems in administration in the future if other individuals transferring to the Reserve Banks wished to remain in the Board Plan. Mr. Allen also thought the proposed arrangement was based on the "indispensable man" theory, that while there was no question of Mr. Flagg's competence, he felt he could be sent to Richmond for a 3 to 6 month period to train another person, but that making a special arrangement such as that proposed for the purpose of accommodating two individuals gave the appearance of favoring them over others to whom such privilege would be denied. Mr. Allen also said that he had discussed the matter with Mr. Flagg, that he had told him that this was like other cases where an individual had to consider whether an offer of a better job was to be accepted, that Mr. Flagg would be receiving a substantial salary increase and a promotion in position, and that the decision whether to go to Richmond

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or to stay in the Board's organization should be made by Mr. Flagg on the basis of an over-all consideration, including transfer to the Bank Plan of the retirement system as a part of the move.

Governor Vardaman stated that this pointed up the situation he had commented on previously, that is, the complications that result from having different retirement systems available to different members of the Federal Reserve organization.

Mr. Carpenter stated that he would not favor the arrangement if he felt it would establish a precedent for other individuals who might transfer from the Board to the Federal Reserve Banks, that he felt the 3 to 6 months training period suggested by Mr. Allen was not an adequate solution of the problem, and that he felt this was a special situation which related to an operation for the entire System which was not likely to be duplicated in any other situation that could arise.

Following discussion, it was agreed unanimously that President Leach should be advised informally that the Board would interpose no objections to the proposed arrangement whereby Messrs. Flagg and March would be transferred to the Richmond Bank in charge of the System Communications Center and be retained on the Board's payroll, it being understood that when the details of the arrangement had been worked out it would be submitted by the Bank for formal approval by the Board.

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Mr. Allen withdrew from the meeting at this point.

Chairman Martin stated that Mr. Hodgkinson, Chairman of the Boston Bank and member of the executive committee of the Conference of Chairmen, talked with him last Friday regarding a possible meeting of the Chairmen this spring at which time he indicated a shift from the position which had been presented at the meeting of the Board on February 20. Mr. Hodgkinson now felt it would be desirable to have a meeting of the Chairmen some time in April primarily for the purpose of discussing salaries of officers of the Federal Reserve Banks, that he felt a one-day meeting would be sufficient for this purpose, and that the Deputy Chairmen should be invited to the meeting. Chairman Martin said that Mr. Carpenter had made the additional suggestion this morning that it might be desirable also to invite the new Class C Directors who were not Chairmen or Deputy Chairmen to attend the meeting, to carry out the suggestion made by Governor Robertson at the Board discussion on February 20.

Governor Szymczak stated that he felt the proposed meeting would be desirable, that the Presidents' Conference had not taken a formal position on the proposed classification plan for officers when it met in Washington earlier this month, but that both President Leach who is Chairman of the Presidents' Conference and Chairman Hodgkinson were in favor of a classification plan along the general lines that had been proposed. Governor Szymczak went on to say that the description of duties of the

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individual Reserve Bank officers and other material called for by the plan was to be submitted to the Board by April 1, and that if the meeting with the Chairmen was to be held later in the month it would be desirable before that time for the Board to discuss further what position it might wish to take with respect to salaries of First Vice Presidents and Presidents of the Federal Reserve Banks.

Governor Robertson suggested during the ensuing discussion that there be prepared for the information of the Board data with respect to the action taken by the Board in the past regarding salaries of the Presidents and First Vice Presidents, as well as data with respect to comparable salaries of Government employees or employees in quasi-Government institutions, and that the whole matter be discussed at a meeting of the Board prior to the proposed conference with the Chairmen.

Governor Szymczak stated that it would be very desirable in connection with the review of the salary classification plans to have the benefit of consultation with experts in the field of salary administration, and that he would recommend that the Board authorize the retention of the firm of Booz, Allen, and Hamilton as a consultant on a per diem basis of \$125 to \$200, with the total cost not to exceed \$5,000, for the purpose of advising on questions related to the classification plan.

Following further discussion, the Board approved unanimously (1) the holding of a one-day Chairmen's Conference during the latter part of April or early

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May for the purpose indicated with the understanding that the question whether new Class C directors other than the Chairmen and Deputy Chairmen would be invited was a matter for decision by the executive committee of the Conference, and (2) the employment on a consulting basis of the firm of Booz, Allen, and Hamilton in accordance with Governor Szymczak's recommendation with the understanding that the total cost would not exceed \$5,000 and that the work performed by representatives of the firm would be done as requested by Governor Szymczak.

Chairman Martin referred to the recommendation of the Presidents' Conference at its meeting with the Board on March 5, 1953 that the Board consider the advisability of making a study of consumer credit to determine whether it would be desirable for the System to seek legislation on the subject and, if so, the type of legislation needed. He went on to suggest that such a study be deferred until a draft had been prepared of the testimony which he expected to give before the Senate Banking and Currency Committee in connection with bills which would provide for standby controls, at which time he would like to have a full discussion of the question raised by the Presidents' Conference.

The suggestion made by Chairman Martin was approved unanimously.

Chairman Martin stated that he felt strongly that during the period prior to May 1, 1953, the Board should study carefully what, if any, action

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might be taken to carry out an effective monetary and credit policy. He said that he was not now sure that there was anything additional that the System could or should do but that it seemed to him there were many forces that were converging which might call for action to restrain further expansion. He did not feel that the Board need be concerned at the moment about some signs of unemployment, that it should be concerned with the reverse situation, namely, that there was such a high level of activity and so few signs of readjustment. He reiterated that while he had no immediate suggestions, he felt it was a matter which should be studied carefully by the Board during the next few weeks.

In response to a question from Governor Vardaman, Governor Evans stated that he expected to attend the hearing on Monday, March 16 in the Third Circuit Court of Appeals in Philadelphia on the appeal of Trans-america Corporation from the Board's order of divestment.

In this connection question was raised whether arrangements should be made to obtain a transcript of the oral argument before the court for the information of the members of the Board who would not attend the hearing and it was understood that the Secretary would look into the matter to determine whether a transcript of the argument would be available.

The following requests for travel authorization were presented:

<u>Name and Title</u>	<u>Duration of Travel</u>
James C. Smith, Federal Reserve Examiner, Division of Examinations	March 8-17, 1953

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<u>Name and Title</u>	<u>Duration of Travel</u>
To travel to Washington, D. C., from Richmond, Virginia, to work on a special assignment in connection with the Transamerica matter.	

J. R. Radford, Jr., Federal Reserve Examiner, Division of Examinations	March 16-20, 1953
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To proceed to Richmond, Virginia, to make a survey of the Bank Examination Department of the Federal Reserve Bank of Richmond.

Woodlief Thomas, Economic Adviser to the Board	March 16-17, 1953
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To travel to New York for the purpose of attending the meeting of the Staff Group on Foreign Interests at the Federal Reserve Bank of New York on March 16, and the meeting of the New York Bank Economists at the Bankers Trust Company on March 17, 1953.

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 March 6, 1953, were approved unanimously.

Memorandum dated March 4, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Mary C. Tippett, Telephone Operator in that Division, be accepted effective as of the close of business March 13, 1953.

Approved unanimously.

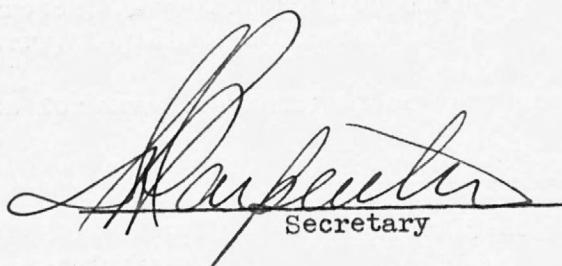
Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

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"Referring to your letter and recommendation of March 2, 1953, the Board of Governors extends until September 10, 1953, the time within which The Genesee County Savings Bank, Flint, Michigan, may establish a branch on Davison Road near Dort Highway within the city limits of Flint, Michigan, as approved by the Board under date of September 10, 1952. It is noted that the exact address of the branch will be 3701 Davison Road."

Approved unanimously.


Secretary