

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 5, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman  
 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. Young, Director, Division of Research and Statistics  
 Mr. Youngdahl, Assistant Director, Division of Research and Statistics  
 Mr. Leach, Chief, Government Finance Section, Division of Research and Statistics

At the suggestion of the Acting Chairman there was an informal discussion of money market developments and System credit policy and their relationship to Treasury financing problems.

Following this discussion Messrs. Riefler, Thomas, Young, Youngdahl, and Leach withdrew, and Messrs. Vest and Hexter, General Counsel and Assistant General Counsel, respectively, entered the room.

Pursuant to the understanding at the meeting on April 30, 1953, there were distributed copies of a draft of letter to Senator Smith, of New Jersey, Chairman of the Senate Committee on Labor and Public Welfare, commenting on Bill S. 1785, introduced by Senator Smith, which among

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other things would revise the definition of the term "employer" in the National Labor Relations Act so as to eliminate the existing exemption of the Federal Reserve Banks from the Act. The proposed letter was accompanied by a memorandum, also prepared in the Legal Division, on the question of whether the Act should apply to the Federal Reserve Banks.

Following a discussion, during which several changes in the draft were agreed upon, unanimous approval was given to a letter for the signature of Chairman Martin to Senator Smith in the following form, with the understanding that a copy would be transmitted to the House Committee on Education and Labor, that copies would be sent to the Presidents of all Federal Reserve Banks, and that a letter would be sent to the Bureau of the Budget stating why it was not feasible to obtain the comments of the Bureau prior to transmittal of the letter to Senator Smith:

"The Board of Governors has noted the statement, which you made at the time of your introduction of S. 1785 to amend the Labor-Management Relations Act, 1947, that you hoped that by publicizing the suggested changes in the law the Committee would have the benefit of the reactions of those affected.

"This bill would revise the definition of the term 'employer' in the National Labor Relations Act so as to eliminate the exemption of Federal Reserve Banks. In this connection we have noted the sentence in your statement that 'The Federal Reserve Banks, even though they perform certain useful functions in behalf of the Federal Government, are, nevertheless, private institutions operated for the profit of private parties'. This statement does not correctly reflect the nature of the Federal Reserve Banks and perhaps a brief discussion of the public character and functions of the Reserve Banks would serve to clarify the matter.

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"Federal Reserve Banks are not private institutions organized or operated for profit. They are corporate instrumentalities of the Federal Government created by Congress for the performance of governmental functions. They have been variously described by the courts as 'important agencies of the Federal Government in its control of banking and currency', and as governmental agencies under the direction of the Federal Reserve Board.

"In the report of the House Banking and Currency Committee on the original Federal Reserve Act, Chairman Carter Glass stated that the Federal Reserve Banks would have 'an essentially public character'. Their public nature is indicated by the governmental character of the functions assigned to them by the law and by the fact that in the exercise of these functions they are subject to general supervision by the Board of Governors of the Federal Reserve System.

"Among their important public functions, the Federal Reserve Banks engage in open market operations under the direction of the Federal Open Market Committee; effectuate national monetary policies through rediscount operations; act as fiscal agents of the Treasury Department and other agencies of the United States; and act as the medium for the issuance of Federal Reserve notes, which constitute the bulk of the currency now in use by the public. These operations are performed without regard to income or profit to be derived by the Reserve Banks.

"Stock ownership in these Reserve Banks is compulsory, not voluntary. Commercial banks which are members of the Federal Reserve System are required to invest a fixed percentage of their capital and surplus in such stock, but the ownership of that stock does not carry with it the same attributes of ownership as in private corporations. For example, the law restricts dividends to 6 per cent per annum; and in the event of liquidation, the member banks are entitled to receive only the original amount of their investment, and any surplus must by law be paid to the United States. The amount paid to the member banks in the form of dividends is a small percentage of the net earnings of the Federal Reserve Banks (in 1952, for example, less than 5 per cent), whereas 90 per cent of net earnings is paid into the Treasury of the United States pursuant to action of the Board of Governors under section 16 of the Federal Reserve Act.

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"The Federal Reserve Banks are not private institutions but are public corporations performing governmental functions of the United States. Under the established policy of Congress, the United States is exempt from the provisions of the National Labor Relations Act.

"In addition to the public nature of the Federal Reserve Banks, it should be borne in mind that the Federal Reserve Act provides that any compensation for officers or employees of the Reserve Banks is subject to the approval of the Board of Governors of the Federal Reserve System, which is a part of the United States Government. Accordingly, negotiations between a Federal Reserve Bank and its employees with regard to compensation, retirement and death benefits, insurance, medical and similar benefits could not produce any final results without the approval of the Board -- in other words, without the approval of the United States.

"Any discussion of negotiations under collective bargaining necessarily involves consideration of the possibility of strikes in the event of failure to reach agreement on some occasions. Strikes by Federal Reserve Bank employees would have disastrous consequences to the operations of the Government. The payment of checks issued by the Treasury, which are presented to the Reserve Bank or Banks affected, would be stopped or greatly delayed. More important, however, is the fact that checks drawn in favor of the Government could not be processed through the Reserve Banks and the result would be to disrupt the flow of revenues into the Treasury. If a strike should occur at a time when the Treasury was engaged in raising funds through the sale of securities, the public debt transactions of the Government would be seriously impeded.

"In this connection, it is to be noted that section 305 of the Labor Management Relations Act, 1947, provides that 'It shall be unlawful for any individual employed by the United States or any agency thereof including wholly owned Government corporations to participate in any strike.' As indicated above, it is obvious that any strike against a Federal Reserve Bank would interfere with essential operations of the Federal Government, and since Federal Reserve Banks are instrumentalities or agencies of the United States, this section is believed to apply to employees of Federal

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"Reserve Banks. However, if the governmental exclusion from the definition of 'employer' in the National Labor Relations Act were amended to omit reference to Federal Reserve Banks, there might be some question as to whether they continue to be covered by the term 'the United States or any other agency thereof' in section 305.

"The Board hopes that your Committee, in view of the essentially governmental character of the Federal Reserve Banks, will decide in favor of the continuance of their exempt status under the National Labor Relations Act. If, however, your Committee should decide not to do so, the Board strongly urges that section 305 be specifically amended in such manner as to avoid any inference that it is not applicable to employees of Federal Reserve Banks, for strikes against these vital governmental institutions should not be countenanced.

"If there is any further information that your Committee or its staff needs in its consideration of any aspect of this matter, the Board will be very glad to furnish it."

The following request for travel authorization was presented:

<u>Name and Title</u>	<u>Duration of Travel</u>
Robert F. Leonard, Director, Division of Bank Operations	May 13-15, 1953

To attend, as associate member, a meeting of the Committee on Collections to be held at the Federal Reserve Bank of New York on May 14 and 15, 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 May 4, 1953, were approved unanimously.

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

"Referring to your letter and recommendation of April 27, 1953, the Board of Governors extends until September 15, 1953, the time within which The Vienna Trust Company, Vienna, Virginia, may establish a branch in McLean, Virginia, as approved by the Board under date of November 26, 1952."

Approved unanimously.

Letter to Mr. Sproul, President, Federal Reserve Bank of New York, reading as follows:

"This letter is in further response to yours of March 26, 1953, in which you presented a suggestion of one of your Directors that the bank supervisory agencies look into the possibility of addressing a general statement to the commercial banks of the country with respect to the growth of consumer credit.

"As stated in the Board's reply of April 1, 1953, this matter was taken up by Governor Robertson at a meeting earlier this month of the standing committee consisting of representatives of the Federal bank supervisory agencies and the National Association of State Bank Supervisors. The standing committee discussed the important aspects of the proposal and decided against a recommendation that a statement be issued at this time.

"The Board of Governors is in agreement with this conclusion for the reason indicated in the last paragraph of your letter with respect to the effectiveness of such a statement and the further reason that the appearance of a statement at this time might be interpreted as an attempt on the part of the Board to bring about the adoption of legislation to restore its authority to regulate consumer instalment credit or as an effort to accomplish by indirection what the Board no longer has authority to undertake through the medium of consumer credit regulation."

Approved unanimously.

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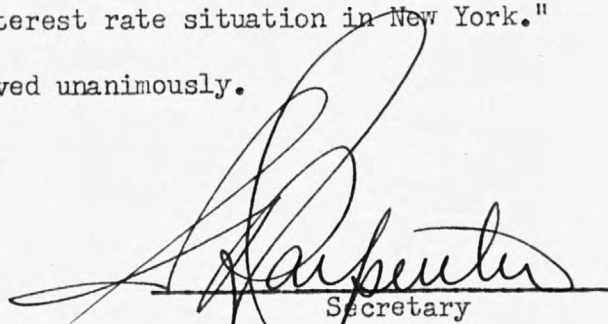
Letter for the signature of the Chairman to Mr. William A. Lyon, Superintendent of Banks, State of New York Banking Department, 270 Broadway, New York, New York, reading as follows:

"This is in response to your letter of April 17, 1953, asking whether we have given any thought to the Board's Regulation Q relating to payment of interest on time and savings deposits and particularly whether the trend toward removing or letting up on controls might be extended to include payments on deposits.

"As you know, section 19 of the Federal Reserve Act provides that no member bank shall pay any interest on any deposit which is payable on demand and also that the Board 'shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits'. In view of these provisions, the Board could not eliminate the prohibition on the payment of interest on demand deposits, nor could it remove the limitations on the rates payable by member banks on time and savings deposits. Whether the present rates on time and savings deposits, including the maximum of 2-1/2 per cent, are appropriate under present conditions is a matter to which we here have given some consideration, but it has not appeared necessary or desirable to make any change at this time in these limitations. The matter is one which we would, of course, be prepared to act upon if at any time conditions should seem to warrant any changes.

"I shall be glad to be advised of the results of your current study of the interest rate situation in New York."

Approved unanimously.



Secretary