

A joint meeting of the Board of Governors of the Federal Reserve System and the Presidents of the Federal Reserve Banks was held at the Board's offices in Washington, D. C., on Tuesday, December 15, 1953, at 2:30 p.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary

Messrs. Erickson, Sproul, Williams, Fulton, Leach, Bryan, Young, Johns, Powell, Leedy, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco, respectively.

Mr. Gentry, First Vice President of the Federal Reserve Bank of Dallas

Mr. Heflin, Secretary of the Conference of Presidents of the Federal Reserve Banks

Before this meeting there had been submitted to the Board a memorandum listing the topics which the Presidents wished to discuss at this joint meeting. The topics, the statement of the Presidents' Conference with respect to each, and the discussion concerning them at this meeting were as follows:

1. Post Office proposal that Federal Reserve Banks receive and process direct deposits of postmasters. The Presidents considered the recent proposal of the Post Office Department that the postmasters of the country deposit their surplus funds directly with the Federal Reserve Banks rather than with

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the Central Accounting Offices or a few selected banks and that the proposed operations be placed in effect in three stages:

- (1) On January 1, 1954, pilot operations to be initiated at the Federal Reserve Banks of Philadelphia, Richmond, and Atlanta;
- (2) On May 1, 1954, operations to be instituted at the other Federal Reserve Banks where the function is not being performed by commercial banks;
- (3) On July 1, 1954, operations to be instituted at the Federal Reserve Banks for the remainder of the country.

During the discussion of this matter, it was pointed out that the proposed operation would involve dealing with thousands of depositors who would make mixed and unassorted deposits as contrasted with the present procedure of accepting for credit to the Treasurer of the United States assorted items from a small number of depositors. Great concern was expressed as to the possibility of continued additional requests for the System to take over operations which have customarily been performed by Government departments, bureaus or agencies.

It was felt that it would be desirable to establish a high-level policy committee composed of one President, one member of the Board of Governors, and one high official of the Treasury Department to make a study of this whole matter and specifically to receive and clear with the Reserve Banks and the Board requests that the System take over additional depository or fiscal agency operations.

With respect to the specific Post Office proposal under consideration, it was agreed that the Federal Reserve Banks of Philadelphia, Richmond, and Atlanta would undertake pilot operations on January 1, 1954; that the existing subcommittee would study the pilot operations with a view to improvement and simplification; and that the question as to what responsibilities would be undertaken by the 12 Federal Reserve Banks at the conclusion of the pilot operations and the question of their reimbursement for expenses in connection therewith would be a matter for consideration by the joint policy committee.

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Chairman Leach said the thought was that Mr. Young, Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, would serve on the proposed policy committee and that the suggestion might be made to the Treasury that Mr. Burgess, Deputy to the Secretary, represent that Department.

Chairman Martin said that the problem referred to by the Presidents was a very important one and that the Board would give prompt consideration to the question of establishing the suggested policy committee and advise the Presidents of its decision.

Chairman Leach pointed out that the Treasury was expecting to be advised of the decision reached by the Presidents' Conference on the problem of postmasters' deposits, and he inquired whether it would be agreeable for President Young to inform Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, that the Federal Reserve Banks of Philadelphia, Richmond, and Atlanta would undertake the proposed pilot operations on January 1, 1954, so that arrangements with the Post Office Department might be completed.

Chairman Martin said it would be in order for President Young to so inform Mr. Bartelt but that nothing should be said which would commit the Federal Reserve System with respect to further operations and assumption of operating costs.

2. Policing subscriptions to issues of Treasury securities. The Presidents noted the difficulties involved in securing uniform policing of subscriptions for Treasury securities on the basis of informal telephone

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conversations with Treasury officials. It was agreed that the Treasury be advised that if the Federal Reserve Banks are to be requested to police such subscriptions, the Treasury be asked to receive a committee of Reserve Bank operating men to work out with Treasury representatives a procedure for the issuance of uniform written instructions before offerings are announced.

Chairman Leach stated that at the time of the last Treasury financing the Federal Reserve Banks received telephone calls from various persons in the Treasury Department and the instructions given were not the same in all cases. He said the Presidents felt that a continuation of this practice would impair relations of the Federal Reserve Banks with banks in their districts and might result in injury to the Treasury's financing program.

Chairman Martin indicated that the Board had no objection to the procedure proposed by the Presidents.

3. Retirement service credit for service rendered prior to age 21 and prior to establishment of the Retirement System. The Conference by a vote of 10 to 2 approved the recommendation of its Committee on Personnel that the Rules and Regulations of the Retirement System of the Federal Reserve Banks be amended by allowing service credit for service rendered prior to age 21 and prior to the establishment of the Retirement System; that the provision for such prior service include both the normal pension and the additional pension in lieu of annuity; and that the cost of providing for such prior service be covered by lump sum payments to be made by the employing Banks. Board approval of this proposal is required before it can be made effective.

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President Johns, Chairman of the Committee on Personnel, made a statement in which he brought out that this proposal had received consideration on previous occasions and that the question had been raised again by an elected trustee at the last meeting of the Trustees of the Retirement System. In discussing the recommendation of the Committee on Personnel, President Johns said that according to information supplied by the Retirement System office, there would be 1,319 employees, as of January 1, 1954, who would be involved and the total cost of funding the prior service would be approximately \$2-1/2 million.

President Johns said it was the view of a large majority of the Presidents that the current rules and regulations of the Retirement System in this respect make an unwarranted discrimination against some of the Reserve Banks' oldest and, in many cases, best employees, and that the proposed amendment would be in conformity with a fairly well established trend in private retirement system practices. He concluded by saying that all papers and data which were available to the Committee on Personnel would be furnished to the Director of the Board's Division of Personnel Administration.

Chairman Martin stated that the matter would be given prompt consideration by the Board.

4. Payment for unused vacation in the event of death of an employee of a Federal Reserve Bank. The Conference by a vote of 11 to 1 approved a recommendation of the Subcommittee on Personnel and the

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Committee on Personnel that authority be requested from the Board of Governors to permit payment to the beneficiary for earned but unused vacation of any officer or employee in the event of death.

President Johns said that most of the Federal Reserve Banks have a policy which, although not uniform at all Banks, contemplates generally that in event of termination of service in some way other than by death, payment shall be made to an officer or employee for earned but unused vacation. He said that in most of the Banks provision for vacation is such as to render it part of the contract of employment, something which the employee earns and to which he is entitled. As to the question of a duplication arising out of payment for unused vacation and the death benefits provided by the Federal Reserve Banks, he said it was the view of the majority of the Presidents that the death benefits should not be considered as payment of salary but as insurance benefits which merely happen to be measured in terms of salary.

President Powell, who had voted against approving the recommendation of the Committee on Personnel, said he had been influenced by the fact that the Federal Reserve Bank of Minneapolis does not consider vacations as earned, so that the proposed policy would necessitate a new line of thinking in the Bank's program of employee relations. He also said that in the opinion of the Minneapolis directors adequate death benefits have been provided. Since service as an active employee ceases with

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death, the question of whether or not the employee had received his vacation seemed to the directors to be beside the point.

Chairman Martin stated that the Board would take the matter under consideration and advise the Presidents of its decision.

5. Amendment of the loss sharing agreement of the Federal Reserve Banks to include coverage of fire and allied risks. In accordance with the action taken at the September meeting of the Conference, each President advised the Chairman of the Insurance Committee whether his Bank would be interested in a loss sharing agreement covering fire and allied risks in which less than 12 Banks would participate. The action taken by the several Reserve Banks follows:

<u>Yes</u>	<u>No</u>
New York	Boston
Atlanta	Philadelphia
Chicago	Cleveland
St. Louis	Richmond
San Francisco	Minneapolis
	Kansas City
	Dallas

During the discussion of this matter some of the Presidents of the five Banks which had evidenced interest in a separate loss sharing agreement indicated that the action taken by their directors was predicated on the probability that more than five Banks would be interested in such an agreement. Accordingly they were not in position to state what action their directors would take at this time. The Chairman of the Insurance Committee is continuing his negotiations with the Factory Insurance Association of Hartford, Connecticut, looking toward submission by the Association of a proposal for the writing of insurance covering fire and allied risks on the Reserve Banks, presumably at lower rates than at present.

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President Earhart, Chairman of the Committee on Miscellaneous Operations, stated that the Presidents of the five Banks whose directors had indicated that they would continue to be interested in a loss sharing agreement in which less than twelve Banks participated would take the matter up again in order to determine whether the directors would care to proceed on the basis of participation limited to five Banks.

In this connection, President Earhart noted that earlier this year, when it was thought that all of the Reserve Banks would participate, the Board of Governors authorized retention out of earnings of half of the total amount of \$6 million which was to be set aside as a reserve against losses. Since it now appeared that none of the Reserve Banks would be entering into a loss sharing agreement covering fire and allied risks before the end of 1953, he suggested that the Board issue instructions to the Reserve Banks to return the \$3 million to current earnings.

At this point Governor Szymczak withdrew from the meeting and Governor Vardaman entered the room.

6. Currency studies. It was pointed out during the Conference that several committees are currently engaged in currency studies. The Committee on Miscellaneous Operations was asked in September 1952 to make a comprehensive survey of the coin and currency situation. In June 1953 a special committee of the Conference was appointed to study the problems involved in the provision and destruction of all types of paper currency. At the joint meeting of the Board and the Presidents in September 1953 it was noted that the Board proposed to establish a System committee with Governor Robertson as

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Chairman to make a broad study of various questions in connection with the currency system of the United States. This topic is listed solely for the purpose of clarifying the scope of the assignments of these committees.

Governor Robertson stated that his committee contemplated making, over the course of time, a complete survey of the entire currency situation, but that special problems arising in the meantime would not be held up pending completion of the survey. He said he had met informally with members of the two Presidents' Conference subcommittees and had told them that his committee would not go over any phase of the work of the two subcommittees until they had completed their studies. Therefore, his committee was doing nothing for the present except to discuss with the Post Office Department the question of surcharges on currency shipments to see whether relief could be obtained. This was one of the reasons why his committee had not made a recommendation to the Board on the proposal of the Federal Reserve Bank of New York for shipment of Federal Reserve notes under contract with a private carrier. Governor Robertson concluded by assuring that there would be no overlapping whatsoever in the studies of his committee and the subcommittees of the Presidents' Conference.

This concluded the discussion of the topics listed for consideration in the memorandum submitted by the Presidents' Conference.

7. Identification cards.

Chairman Martin inquired whether the identification cards issued by the Board beginning in 1951 to directors and officers of the Federal

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Reserve Banks and members of the Federal Advisory Council served a sufficiently useful purpose to justify their continuance. Chairman Leach said it was the consensus of the Presidents that the cards might well be discontinued and that the letters sent by the Board to new directors served adequately any purpose sought to be accomplished by the identification cards.

8. Study of territories of Federal Reserve Banks and branches.

Reference was made to the request of the Board at the joint meeting with the Presidents on March 5, 1953, that the respective Presidents quietly undertake studies of existing Federal Reserve Bank and branch territories and advise the Board whether there were changes that would seem desirable in order that the Reserve Banks might serve their member banks more effectively.

Governor Vardaman made a statement in which he referred to the changes in trade channels and methods of communication which have occurred since the establishment of the existing Federal Reserve Bank territories and stated reasons why he felt that the Federal Reserve System should take the initiative in making a careful study of possible changes, which might involve the establishment of additional branches.

During a discussion which followed, Chairman Leach referred to conditions in the Fifth Federal Reserve District which led him to conclude that improvements in services rendered to member banks would not be

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achieved by the establishment of additional branches or by redistricting.

President Earhart commented on a study of the boundaries of the Los Angeles Branch zone, as reported in a letter which he had addressed to the Board under date of December 9, 1953. He remarked, in this connection, that it would be helpful if all Federal Reserve Banks were informed when any changes in branch territories were contemplated, since it would be convenient from several operating standpoints if changes were made at or about the same time.

Following a statement that the Board would be interested in receiving reports from all of the Reserve Banks, President Bryan inquired as to the type of investigations desired by the Board. Chairman Martin responded that what the Board wanted was current information based on studies made inside the Federal Reserve Banks which would be useful if, for example, requests were received for additional branches.

9. Federal Reserve Bank expenses.

Chairman Martin made a statement in which he stressed the importance of close liaison between the Board and the Federal Reserve Bank Presidents in dealing with matters of mutual responsibility. He said that this was the only effective way of working out System problems and that he was encouraged to note the progress being made toward closer liaison.

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Turning to the matter of Federal Reserve System expenses, Chairman Martin said that the Board had discussed the Federal Reserve Bank budgets for 1954 in an objective manner and had devoted much time and thought to them. He pointed out that the Board must be particularly conscious of economy and efficiency at the present time and that in dealing with the problem of expenses it looked first to its own budget with a view to eliminating all expenditures that could be deferred or that were not essential to the current work of the Board.

Chairman Martin went on to say that the Board was convinced that the only way to get a real understanding of mutual problems confronting the Board and the Reserve Banks was through face-to-face discussions. Therefore, the Board had discussed with the Chairmen of the Federal Reserve Banks at their recent meeting the desirability of looking closely at the matter of expenses and had expressed to the Chairmen the hope that during the next year the Board might have the Chairman, President, and perhaps other directors and top officers of each Bank come to Washington at some mutually convenient time to go over the management problems of the respective Reserve Banks.

Chairman Martin said that in speaking to the Reserve Bank Chairmen he emphasized that the Board was not trying to avoid any responsibility with respect to Reserve Bank expenses but that he asked the Chairmen whether they thought it would be fair for him, if he were pressed for an

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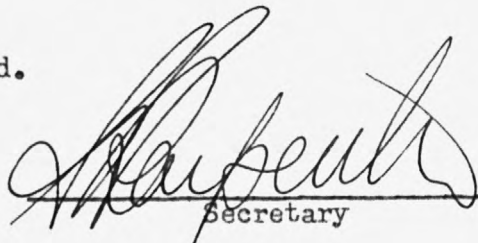
explanation of the expenditures at any Reserve Bank, to suggest that the Chairman and President of that Bank be called upon to discuss these matters. He added that this would highlight the fact that the System's regional organization places a joint responsibility in matters of this kind on the Board and the Reserve Banks and that the Chairmen agreed that this would be an appropriate and reasonable position for him to take.

In a discussion based on Chairman Martin's comments, President Bryan said he agreed with the statements made and that he did not think it fair for the Board to be put in a position where it had to defend any expenditures of a Reserve Bank, particularly if it did not feel that the expenditures were defensible. He expressed the view that the Reserve Banks could not claim to have a measure of independence and avoid the consequences of that independence.

President Sproul said he favored the idea of meetings of the Board and the management of the respective Reserve Banks to discuss any expenditures which the Board did not believe justified. He considered this procedure much more desirable than exchanges of letters or other procedures.

The other Presidents indicated agreement with the views expressed by Messrs. Bryan and Sproul.

Thereupon the meeting adjourned.


Secretary