

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 Wednesday, March 3, 1954, at 2:15 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, Young, Johns, Powell, Leedy, Irons, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta

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 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 February 15, 1954 Report of the Special Committee on the Deposit Proposal of the Post Office Department and in view of the nature and scope of the operation as disclosed by the pilot operations conducted at Philadelphia, Richmond, and Atlanta agreed that all Federal Reserve Banks would undertake the operation on the dates

3/3/54

-2-

suggested by the Post Office Department. The Presidents will request the Joint Fiscal Agency Policy Committee (Messrs. Burgess, Szymczak, and Young) to consider the question of reimbursement to the Reserve Banks for expenses incurred in this operation and make recommendations to the Reserve Banks and the Board prior to the next meeting of the Conference.

Chairman Leach stated that, as envisaged by the Presidents' Conference, requests that the Federal Reserve Banks undertake to perform additional fiscal agency or depositary functions ordinarily would be referred to the Joint Fiscal Agency Policy Committee for consideration and recommendation as to whether the proposed operation should be undertaken and, if so, whether the Federal Reserve Banks should be reimbursed for expenses which they incurred. However, in the case of the proposal that the Federal Reserve Banks receive and process postmasters' deposits, the matter had proceeded to the stage that, in the opinion of the Presidents, there was no alternative to all of the Federal Reserve Banks taking over the operation according to the schedule of dates suggested by the Post Office Department. On the other hand, the Presidents had taken no position on the question of reimbursement and they wished to have the Policy Committee consider this matter and make recommendations to the Reserve Banks and the Board prior to the next meeting of the Presidents' Conference.

In further comments, Chairman Leach said that on the basis of the pilot operations conducted at the Federal Reserve Banks of Philadelphia, Richmond, and Atlanta, it appeared that the handling of the postmasters'

3/3/54

-3-

deposits would be less difficult and less complicated than had been anticipated. If extended on a country-wide basis, it was estimated that the annual cost to the Federal Reserve Banks would be in the vicinity of \$625,000.

At the conclusion of a discussion of this matter, it was understood that, as suggested by the Presidents' Conference, Messrs. Szymczak and Young would confer with Mr. Burgess with a view to making recommendations to the Board and the Reserve Banks on the question of reimbursement to the Reserve Banks for expenses incurred in the handling of postmasters' deposits.

2. Recirculation of fit notes of other Federal Reserve Banks. In connection with its consideration of the report of the Special Committee on Provision and Destruction of Paper Currency the Conference noted that it would still favor the amendment of section 16 of the Federal Reserve Act to permit (but not require) the recirculation of fit notes of other Federal Reserve Banks. It will be recalled that this matter was developed rather fully in the February 21, 1951 report of the Subcommittee on Recirculation of Notes of Other Federal Reserve Banks (Jones Subcommittee) and was the subject of discussion between the Board and the Presidents in December 1952.

Following a statement by President Powell, in which he brought out that the requirements of section 16 of the Federal Reserve Act which prohibit a Federal Reserve Bank from paying out notes issued by another Federal Reserve Bank seemed to serve no useful purpose and that elimination of these requirements would result in savings to the Federal Reserve Banks estimated at more than \$750,000 a year, Chairman Martin said that

3/3/54

-4-

the Board likewise favored repeal of the pertinent provisions of section 16 of the Act and that it was taking steps to clear with the Bureau of the Budget, in accordance with the usual procedure, a legislative proposal which would be submitted to the Congress as promptly as possible.

3. Expense reporting and budgetary procedures. The Presidents considered the Board's letter of August 5, 1953, and the December 4, 1953, report of the Subcommittee on Accounting regarding the proposal for a two-stage budget and other expense reporting and budgetary procedures and concur in the Subcommittee's recommendation that budgetary procedures be revised to permit each Federal Reserve Bank to estimate expenses for the current calendar year (to the extent that estimates are required) to be used as base data for projecting annual budgets for the succeeding calendar year.

President Erickson stated that after making studies suggested by the Board's letter of August 5, 1953, the Presidents' Conference Subcommittee on Accounting had recommended against a two-stage budget and that the Presidents' Conference concurred in this recommendation. The Presidents' Conference likewise concurred in a recommendation of the Subcommittee that no change be made at this time in the basic expense reporting and budgetary procedures which were adopted effective January 1, 1951, in the light of the Price, Waterhouse Report. The Subcommittee also concluded that the current budgetary procedure, under which budget estimates for a given calendar year are compared with expenses for the twelve months ending the previous June 30, presented complications in preparing and

3/3/54

-5-

analyzing the budgets and that, in the circumstances, it would seem preferable to revert to the procedure which would permit each Federal Reserve Bank to estimate expenses for the current calendar year to the extent required and use those figures as base data for projecting annual budgets for the succeeding calendar year. The Presidents' Conference agreed with this recommendation of the Subcommittee.

Chairman Martin stated that the Board was in agreement with the recommended change in budgetary procedures.

4. Post Office rates on currency shipments between Federal Reserve Banks and member banks. The Presidents understand that Governor Robertson is discussing with Post Office officials the cost of shipments of new Federal Reserve currency from Washington to the Federal Reserve Banks. In connection with the January 29, 1954, report of the Subcommittee on Cash, Leased Wire, and Sundry Operations a question was raised whether it might not also be desirable to discuss with high Post Office officials rates on currency shipments between Federal Reserve Banks and member banks.

Referring to the January 29, 1954, report of the Subcommittee on Cash, Leased Wire, and Sundry Operations concerning currency and coin supply and distribution, President Earhart called attention to the Subcommittee's conclusion that where armored car service is the more effective and economical means of supplying and receiving currency it should be used, except that where currency can be shipped by registered mail at a cost even close to that of armored car service, the Reserve Banks should use registered mail. He said the Subcommittee had attempted to interest public carriers in competing for the short-haul currency shipment business,

3/3/54

-6-

that the Post Office appeared interested and indicated that some surcharge rates might be reduced, and that if costs were not much greater, it was the feeling of the Subcommittee that it would be logical to use registered mail, since the Reserve Banks rely on registered mail service for long-haul shipments and should encourage good mail service. After stating that the Committee on Miscellaneous Operations and the Presidents' Conference agreed with the Subcommittee's conclusions, President Earhart said that although the Subcommittee's report had been accepted and the Subcommittee discharged, it appeared that the matters in question should be followed up at a high level with the Post Office Department.

Governor Robertson then reviewed discussions which had been held with representatives of the Post Office Department, referring first to the matter of surcharge rates on shipments of new Federal Reserve notes out of Washington in amounts of \$1,000,000 or more. He said that a proposal had been worked out within the Post Office Department, and submitted to the Postmaster General for approval, under which the surcharge rates on such shipments would be reduced to an extent which would effect an annual saving to the Federal Reserve System in the neighborhood of \$400,000 annually based on the past volume of such shipments made out of Washington. In this connection, Governor Robertson said the Post Office was anxious to know whether, if the surcharge rates on these shipments were reduced, the Federal Reserve Banks would continue to use registered

3/3/54

-7-

mail, and while no commitments were made, there was a general understanding that, in the absence of changed conditions, the Federal Reserve Banks would continue to use the Post Office services. This would mean discarding the recent proposal of the Federal Reserve Bank of New York for shipment of Federal Reserve notes from Washington to New York under contract with private carriers, and even though shipments to New York by registered mail would cost somewhat more than under the proposed arrangement, the saving to the System as a whole would be substantial enough to warrant rejecting the proposal.

Regarding individual shipments of currency under \$1,000,000, including shipments between Federal Reserve Banks and member banks, Governor Robertson said that the Post Office Department appeared to be anxious to compete for this business and realized that one reason why it had lost business to the armored car services was because of the difference in costs. On the basis of the discussions, there appeared to be a likelihood of reduced rates on these shipments, although here again this had not been approved by the Postmaster General. The suggestion was made that Post Office representatives visit each Federal Reserve Bank to ascertain what the problems were with respect to currency shipments and whether it appeared that the Post Office could obtain more of the business through a lowering of rates or improvements in service. This suggestion was received favorably by the Post Office and, in addition, it was understood

3/3/54

-8-

that Assistant Postmaster General Robertson and other representatives of the Department would be glad to meet with committees of the Presidents' Conference in Washington at any time to discuss Federal Reserve currency shipment problems, including problems relating to service or rates.

During a discussion based on Governor Robertson's comments, question was raised as to whether the Federal Reserve Banks should take any action in the circumstances, and Governor Robertson stated that the Banks would be approached by the Post Office Department within a short time for discussions relating to currency shipment problems, so that it would be well for the Banks to hold in abeyance any plans they might be considering which would involve shifts to other types of service. It was his thought that the Post Office should be put in the position of competing for the business, that the Reserve Banks should use Post Office services as much as possible, but that the Reserve Banks could not justifiably do so if the cost was much greater than the cost involved in using armored car services.

The Presidents indicated that they agreed with the views expressed by Governor Robertson.

President Earhart also referred to the recommendation contained in the above-mentioned report of the Subcommittee on Cash, Leased Wire, and Sundry Operations that the Federal Reserve Banks should not provide free currency and coin delivery service to and from member banks located in Federal Reserve Bank and branch cities. He said the Committee on

3/3/54

-9-

Miscellaneous Operations and the Presidents' Conference concurred in this recommendation since it would seem that the System should not take a step which would materially increase its costs with no resulting economic gain or improvement in service to the public. Furthermore, the providing of such service would not accomplish full equality of service to member banks regardless of location.

It was indicated that the Board agreed with these views.

5. Amendment of the loss sharing agreement of the Federal Reserve Banks to include coverage of fire and allied risks. Further discussion of this topic at the current meeting of the Conference indicated that none of the Federal Reserve Banks are presently interested in a loss sharing agreement covering fire and allied risks.

The statement of the Presidents' Conference was noted and there was no discussion of this topic.

6. Employment of technical experts to evaluate electronic machine designed to count and sort paper currency of one-dollar denomination. In connection with its consideration of the February 1, 1954, report of the Subcommittee on Electronics the Conference indicated its willingness to underwrite the development by the Burroughs Corporation of a currency sorting and counting machine under a two-phased development contract as recommended by the Battelle Memorial Institute provided satisfactory arrangements could be made regarding development costs, advisory fees, etc. The Federal Reserve Bank of New York was asked to discuss these matters with the Burroughs Corporation and the Battelle Memorial Institute and report to the Conference at its June meeting.

President Earhart explained that under the first phase of the contract recommended by the Battelle Memorial Institute the mechanical

3/3/54

-10-

portion of the equipment would be developed. In the second phase of the program, which would not be undertaken until the first phase had been completed satisfactorily, the electronic equipment itself would be developed. President Earhart said it appeared that it might require as much as ten years to get back the development costs plus the cost of machinery and that, in the circumstances, the Presidents gave consideration to an alternative proposal which would involve waiting for three years or so to see if there were any additional developments in this field which might affect the development project that was now envisaged. After considering the matter fully, the Presidents felt that the System should not stand still, although they recognized that there were a number of problems that would have to be worked out. For example, it appeared advisable to continue to retain the advisory services of the Battelle Memorial Institute and it was not known what cost would be involved. In addition, although the Burroughs Corporation had quoted a figure of \$198,000 for the two-phased development project, a breakdown of cost between the two phases was not available. In the circumstances, the Presidents decided to leave to the Federal Reserve Bank of New York the matter of working out arrangements with the Battelle Memorial Institute and the Burroughs Corporation, with the understanding that no contracts actually would be entered into before the next meeting of the Presidents' Conference. Should such contracts be entered into, the other Federal Reserve Banks would participate in the cost on the basis of the capital and

3/3/54

-11-

surplus of each Bank. President Earhart made the further comment that if the Board had any objection to the proposal it should so indicate before further negotiations were undertaken.

Chairman Martin stated that the Board would review the matter and would advise the Presidents' Conference of its views promptly.

7. Proposal that Retirement Office withhold from retirement allowance payments, amounts payable by retired members for hospital and surgical benefits. The Conference considered the February 25, 1954, report of the Subcommittee on Personnel and approved in principle, subject to satisfactory working out of the details of the program, the proposal that the Retirement Office withhold from retirement allowance payments, amounts payable by retired members for hospital and surgical benefits which they may elect and be able to carry after retirement.

President Johns stated that this proposal was made by an elected trustee at the last meeting of the Trustees of the Retirement System, that the matter subsequently came before the Retirement Committee for consideration, and that the Retirement Committee, while of the opinion that the plan was feasible from a mechanical standpoint, felt at the same time that such policy questions as might be involved should be considered by the Presidents' Conference. Accordingly, the matter was referred to the Subcommittee on Personnel, which concluded that the plan would be workable and recommended its approval, subject to satisfactory solution of any rate problems.

President Johns said that one question given consideration by the Presidents' Conference was whether the instituting of this procedure might

3/3/54

-12-

encourage retired Federal Reserve Bank employees to again request that the Reserve Banks make some contribution toward the payments made by such employees for hospital and surgical benefits, but that it was the view of the Presidents that even if this question were raised, the instituting of the procedure now under consideration would not prejudice consideration of the question of contributions. He also said that another question, which had not been explored fully, was whether the plan would affect the rates on coverage for hospital and surgical benefits for employees in active service, and that the approval of the Presidents' Conference was subject to this phase of the matter being worked out satisfactorily.

It was indicated that the Board would have no objection to the proposed procedure, provided the details of the program were worked out to the satisfaction of the Presidents' Conference.

This concluded the discussion of the topics covered in the memorandum submitted by the Presidents' Conference.

8. Bill which would direct the Comptroller General to make an audit of the Federal Reserve System.

Reference was made by Chairman Leach to the bill introduced by Congressman Patman (H.R. 7602) which would direct the Comptroller General to make an audit for the year ending December 31, 1953, of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and their branches. He inquired whether there had been any developments with respect to this bill.

3/3/54

-13-

Chairman Martin stated that advice had just been received that the Committee on Government Operations, to which the bill had been referred, intended to hold hearings on it beginning in about two weeks. He said that while the Board had been asked by the Committee for a report on the bill, no request had been received that the Board testify during the hearings. He felt, however, that even if no request was received, the Board might decide to request an opportunity to testify. Chairman Martin suggested that the Presidents give serious attention to the bill in the light of this development and that they consider designating one President to testify on behalf of the Federal Reserve Banks. Chairman Martin went on to say that the Board would keep in touch with the Presidents with respect to this matter as further developments occurred.

In this connection, Governor Robertson called attention to the arrangements made by the Board in 1953 with the certified public accounting firm of Arthur Andersen and Company pursuant to which representatives of the firm would accompany the Board's field examining staff on the examination of at least one Federal Reserve Bank each year to review the adequacy of the examining procedures and make suggestions for improvements.

Chairman Leach stated that the Presidents were thoroughly in favor of this arrangement.

9. Meetings of the Federal Reserve Banks with reserve city bankers.

Chairman Leach referred to the current practice under which the Federal Reserve Banks meet once each year with delegations representing

3/3/54

-14-

the reserve city bankers in their respective districts to discuss mutual problems. He said that the reserve city bankers have been in the habit of circulating minutes of these meetings, that in some instances it appeared that the minutes did not reflect the discussion at the meetings too accurately, and that it was the opinion of the Presidents that each Reserve Bank should endeavor to work out arrangements whereby the Reserve Bank would be allowed to review a draft of the minutes before the minutes were circulated.

Chairman Martin stated that he felt this would be very desirable.

President Sproul referred, in this connection, to minutes of a conference that a committee of reserve city bankers had had with Chairman Martin and Governor Mills which he understood might not have reflected in an entirely accurate way the discussion that took place at the meeting. Governor Mills then commented on a suggestion which was made at that meeting by one of the bankers that a statement be drawn up which would delineate clearly the spheres of activity of the Federal Reserve Banks and of the commercial banks, particularly those actively engaged in correspondent bank business. He said that it was indicated by Chairman Martin at the meeting that the suggestion would be borne in mind, but that on the basis of conversations which he (Governor Mills) had had thereafter, he was of the impression that representatives of the reserve city bankers had become increasingly convinced that a statement of the kind proposed would be inappropriate. Therefore, he felt that the suggestion would be dropped.

3/3/54

-15-

10. Rules regulating dealings by Federal Reserve
Bank personnel in Government securities.

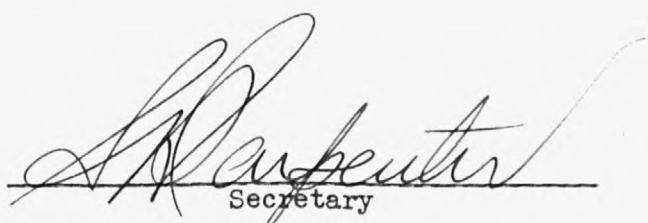
Chairman Martin referred to questions which were directed to him by Congressman Patman during his testimony on February 3, 1954, before the Joint Committee on the Economic Report regarding the possibility of Federal Reserve personnel profiting from inside information on System open market operations. He suggested that the Presidents review his testimony on that point and be sure that proper safeguards were in effect at the respective Federal Reserve Banks.

President Sproul reviewed the rules in effect at the Federal Reserve Bank of New York and stated that the matter had been drawn to the attention of the Bank personnel again following Chairman Martin's testimony. Other Presidents indicated that similar rules were in effect at their Banks.

Governor Szymczak inquired to what extent existing rules applied to directors of the Federal Reserve Banks, and this point was discussed.

It was then suggested that the Reserve Banks forward to the Board copies of their rules relating to this matter so that those rules might be on file in the event the question should come up again, and it was agreed that this would be done.

Thereupon the meeting adjourned.



A. M. Harbener
Secretary