

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 19, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 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. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Marget, Director, Division of International Finance
 Mr. Solomon, Assistant General Counsel
 Mr. Cherry, Legislative Counsel

At the opening of the meeting, Governor Vardaman stated that he would have to leave at 11:00 o'clock to attend another meeting and suggested that the proposed letter to Representative Hoffman, Chairman of the Committee on Government Operations, be discussed since he wished to suggest some amendments. The Board decided to hear Mr. Marget first, and since Mr. Marget's talk extended beyond the hour of 11:00, Governor Vardaman withdrew from the meeting before any discussion of the Hoffman letter was had.

Mr. Marget reviewed recent international financial developments bearing on the prospect of steps by foreign countries toward the establishment of currency convertibility. His comments were followed by a general discussion, during the course of which Governor Vardaman withdrew from the meeting. At the conclusion of the discussion, Messrs. Marget and Thomas also withdrew, and Messrs. Sloan, Director, Division of Examinations, and

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Johnson, Controller, entered the room.

Pursuant to the understanding at the meeting on March 16, there had been prepared a revised draft of letter to Representative Hoffman, Chairman of the Committee on Government Operations, reporting on Bill 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 branches.

Following a discussion, during which certain changes in the draft were suggested, unanimous approval was given to a letter from Chairman Martin to Representative Hoffman reading as follows, with the understanding that it would be transmitted upon receipt of advice from the Bureau of the Budget that it had no objection to the submission of the report:

This is in response to your letter requesting a report on the bill 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 of the Federal Reserve System, the Federal Open Market Committee, and the Federal Reserve Banks and their branches.

Manifestly, Federal Reserve operations should be conducted with maximum efficiency and economy. To that end Congress placed upon the Board of Governors, which is a part of the Government, direct responsibility for general supervision and periodic examination of the Federal Reserve Banks. The Federal Reserve Act also provides that each Federal Reserve Bank shall have a board of directors of nine men chosen from their respective districts. They are outstanding men in their communities, who have had broad experience in business, banking, and professional life, and who apply to the Reserve Banks the high standards of efficiency prevalent in private enterprise. It has thus been aptly said that the Federal Reserve combines advantages of governmental control with advantages of private business management.

The Board believes that the Congress has thus provided a sound, prudent, and adequate means of achieving efficiency

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and economy in Federal Reserve operations and that legislation to superimpose a further audit of these operations by another Government agency would not only make for needless duplication and additional expense but would be regarded as an entering wedge in encroaching upon that independence of judgment which Congress in the Federal Reserve Act has sought to safeguard and which is indispensable in the execution of impartial credit and monetary policy. If through some measure of control over the finances of the Reserve Banking System, another agency of Government could restrict operations which the System deemed necessary in performing its statutory functions, the resulting substitution of judgment could only result in a growing loss of effectiveness of the Reserve System.

In meeting its statutory responsibility, the Board, through a staff of examiners, makes a thorough examination of each Federal Reserve Bank and branch each year. In addition, the Board exercises supervision over the Reserve Banks throughout the year, and constantly strives through budgetary measures, comparative cost studies and similar methods to increase economy and efficiency of operations.

As part of the process of double-checking and improving methods, the Board in 1953 engaged the public accounting firm of Arthur Andersen & Co., to review and observe the procedures used by the Board's examination staff during the examination of one of the Reserve Banks. That firm's report commented favorably upon the competence and effectiveness of these procedures. The Board has arranged to have similar reviews made of its examinations of other Federal Reserve Banks from time to time in order to be doubly sure that the examinations are as good as the combined efforts of responsible men in and out of Government can make them.

The Federal Open Market Committee itself does not handle any funds or have any books of account, but the annual examination of the Federal Reserve Bank of New York, which is the bank designated to carry out System open market operations as directed by the Federal Open Market Committee, includes a comprehensive and detailed examination of the accounts relating to these operations.

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For many years the Board of Governors had its own accounts audited by the independent audit department of one or another of the Federal Reserve Banks, and that arrangement provided a thorough and trustworthy audit. However, in order that there may be no question as to the independence of these audits, the public accounting firm mentioned above was engaged to audit the accounts of the Board of Governors in 1952, and the firm is just completing an audit of the Board's accounts for the year 1953.

For the reasons indicated, the Board believes enactment of the bill, H.R. 7602, would be contrary to the public interest because it would produce duplication of work and needless expense and in addition would conflict with the fundamental purposes which Congress has sought to achieve in the Federal Reserve Act.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, and San Francisco stating that the Board approved the establishment without change by the Federal Reserve Bank of Boston on March 15, by the Federal Reserve Bank of San Francisco on March 17, and by the other three Federal Reserve Banks on March 18, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point all of the members of the staff withdrew and the Board went into executive session.

Thereafter, the Secretary was informed by Governor Mills that during the executive session the Board approved unanimously the acceptance of an invitation from the Chairman of the Midwest Economics Association that three members of the staff of the Division of Research

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and Statistics make a presentation concerning the recent revision of the index of industrial production at a meeting of the Association to be held on April 23, 1954, in Peoria, Illinois. This action was taken with the understanding that in arranging their itinerary, the members of the Board's staff would allow themselves time for discussion at the Federal Reserve Bank of Chicago to improve their knowledge of sources of current information, relating mainly to the producers' equipment industries.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Evans present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 18, 1954, were approved unanimously.

Memoranda from appropriate individuals concerned recommending Personnel actions as follows:

Appointment, effective upon the
date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>	
Dorothy H. Ford, Clerk	Research and Statistics	Temporary indefinite	\$3,190	

Salary increases, effective March 28, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Loretta D. Beale, Review Classifier	<u>Office of the Secretary</u>	\$3,655	\$3,785
Jean F. Stockwell, Records Clerk		3,270	3,415

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Increase in salary rate for Substitute Nurses, Division of Personnel Administration

Increase in salary rate from \$13 to \$15 per day, effective March 19, 1954.

Approved unanimously.

Letter to Mr. Hodgkinson, Chairman, Federal Reserve Bank of Boston, reading as follows:

The Board of Governors approves the appointments of Messrs. John L. Baxter, Wallace E. Campbell, Earl P. Stevenson, Fred C. Tanner, and Harold J. Walter as members of the Industrial Advisory Committee for the First Federal Reserve District to serve for terms of one year each beginning March 1, 1954, in accordance with the action taken by the Board of Directors as reported in your letter of March 15, 1954.

Approved unanimously.

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

Reference is made to your letter of March 11, 1954, regarding the request of the Peoples Trust Company of Bergen County, Hackensack, New Jersey, for an extension of six months' time within which to establish a branch in the Borough of Paramus, New Jersey.

After consideration of all of the information available, the Board concurs in your recommendation and extends to July 1, 1954, the time within which the Peoples Trust Company of Bergen County may establish the branch in the Borough of Paramus, New Jersey, as originally approved in the Board's letter of October 21, 1953.

Approved unanimously.

Letter to Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

This will acknowledge your letter of March 10, 1954, concerning the employment of the architectural firm of

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Russell Mullgardt Schwarz Van Hoefen of St. Louis to prepare plans and specifications for the proposed new Louisville building and to supervise its construction.

It is noted that, as requested in the Board's letter of March 5, you have reconsidered with the architects the amount of their proposed fee, but are satisfied that, in the circumstances cited, the fee of 6½ per cent is appropriate and have signed the agreement with the architects on that basis.

Approved unanimously.


Secretary