

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 21, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Mills
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of
Examinations
Mr. Johnson, Controller, and Director,
Division of Personnel Administration
Mr. Cherry, Legislative Counsel

At the meeting of the Board on June 16, 1955, consideration was given to drafts of letters to Mr. Alexander, Chairman of the Federal Reserve Bank of St. Louis, and to Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, the first of which related to certain entertainment expenses and the second of which expressed the Board's desire to discuss this general subject with the Presidents at the time of the current meeting of the Presidents' Conference. Revised drafts had been prepared in the light of comments made at the June 16 meeting and copies thereof had been sent to the members of the Board along with a draft of letter to the Chairmen of all Federal Reserve Banks

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which would transmit a copy of the letter to President Young and state that the Board expected to review with the Presidents the matters referred to therein.

At the conclusion of a discussion, unanimous approval was given to letters as follows, each for the signature of Chairman Martin:

To Mr. Alexander, Chairman, Federal Reserve Bank of St. Louis

The Board's examiners have called attention to expenditures incurred by your Bank for theatre and baseball tickets in connection with the joint meetings in 1953 and 1954 of the directors of your Bank and its branches.

This has raised again the problem with which the Board dealt in its letter of January 16, 1945 (S-826). While the amount involved was not large, the Board feels strongly that it falls into a class of expenditure that should be avoided in the future.

To Mr. Young, Chairman, Conference of Presidents of the Federal Reserve Banks

The Board recognizes that it is difficult to lay down hard and fast rules to distinguish between appropriate and inappropriate expenditures. The Board continues to feel that decisions on certain Federal Reserve Bank expenditures should be guided by the general principles set forth in its letter of January 16, 1945 (S-826). These principles recognize that Federal Reserve Banks have a special relationship to the Government. Unlike privately-owned corporations, Federal Reserve Banks were established by the Congress to perform essential public functions. Reserve Bank expenditures, as of course you know, cannot be viewed in the same light as those undertaken by private enterprises.

The Board is strongly of the viewpoint, as stated at meetings of the Chairmen's and Presidents' Conference, that the Federal Reserve Banks themselves have primary responsibility for determining the appropriateness of expenditures and that they should be prepared to justify expenditures. As the Board stated in the 1945 letter, however, Congress has placed upon the Board a measure of responsibility for

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reviewing expenditures of the Federal Reserve Banks.

Attached to the 1945 letter was a memorandum specifically referring to certain types of expenditures which could be incurred without the approval of the Board. The letter concluded with the statement that the Board was confident that the Banks would exercise their discretion in full recognition of their responsibility as stewards of public funds and that the Board would rely on its examiners to comment in reports of examination on any expenditures which they felt should be questioned. The memorandum mentioned such matters as mementos for retiring directors, expenditures for welfare and educational work, minor expenditures for testimonials, recognition of long service, gifts to retiring employees, and expenditures for purposes not directly related to the conduct of the Banks' affairs.

The procedures outlined above have worked satisfactorily and there have been few occasions when the Board has thought it necessary to question specific expenditures. While the Board sees no objection to paying reasonable costs of luncheons and dinners given in connection with meetings of directors and other appropriate meetings arranged by the Federal Reserve Banks, it questions the appropriateness of expenditures for professional entertainment, tickets for the theatre and similar outlays.

At the forthcoming meeting with the Presidents the Board would like to review this subject again with a view to reaching a more definite understanding with respect to expenditures of this type.

A copy of this letter is being sent to the Chairmen of the respective Federal Reserve Banks.

To the Chairmen of all Federal Reserve Banks

The Board expects to review again with the Presidents while they are in Washington certain expenditures of the Federal Reserve Banks. A copy of a self-explanatory letter being sent to the Chairman of the Presidents' Conference in this connection is attached.

At the meeting on June 15, 1955, consideration was given to three alternative drafts of a letter to the Comptroller General of the United States relating to the audit of the Federal Reserve System which the

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General Accounting Office had been requested to make by the Chairman of the House Committee on Government Operations. The first two drafts had been amended on the basis of discussion at that meeting and copies of all three drafts had been sent to the members of the Board. The first two drafts, marked A and B, respectively, took the same general position, i.e., that the Board could not lawfully acquiesce in such an audit in the absence of an express directive from the Congress, but in draft A the reasons for that conclusion were spelled out in more detail. The third draft, which was marked draft C, and stated the views of Governor Szymczak, expressed doubt whether the proposed audit should be made in the absence of an express directive from the Congress but stated that, notwithstanding these doubts, the Board wished to cooperate to the fullest extent possible and would make available to the General Accounting Office the reports of examination of the Federal Reserve Banks for the years 1953 and 1954 and the reports of audit of the Board's accounts for the same years in the hope that a review of those reports would enable the Comptroller General to comply satisfactorily with the request which had been made of him.

In response to a question by Chairman Martin, Mr. Vest, who was inclined to favor draft C, stated that he was influenced by the fact that the other two drafts put the arguments almost exclusively on the basis of legal considerations, whereas it was his understanding that even in the absence of such considerations, the Board felt that there were fundamental reasons why such an audit should not be made. He pointed out that if a

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position were taken along the lines stated in drafts A and B, the Committee on Government Operations might subpoena the Board and the Federal Reserve Banks. In the circumstances, he felt there was something to be said for a more conciliatory approach.

Chairman Martin, who favored a position such as that taken in draft A, stated that he did so because he felt that the point had been reached where it was not possible to temporize any further with principle. He referred to the cooperation extended by the Board last year in making reports of examination and audit of the System available to the House Banking and Currency Committee and indicated that in his opinion it would now be to the Board's advantage to seek a hearing before the Committee on Government Operations in order to present the reasons why it was felt that an audit of the System such as proposed should not be conducted. To bring the matter to the stage of a hearing, he pointed out, it was necessary to cite the legal arguments as to why the conclusion had been reached that the Board could not lawfully acquiesce in the proposed audit. He felt, however, that the points made by Mr. Vest deserved consideration and that they might be met by some expansion of draft A.

During further discussion which ensued, it developed that all of the members of the Board who were present favored the position taken in drafts A and B and that all except Governor Balderston preferred the longer exposition contained in draft A. A number of changes were then suggested which would modify draft A in various respects, including changes

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designed to take into account the views expressed by Governor Balderston and Mr. Vest. There was agreement that the letter should indicate specifically that the Board would welcome an opportunity for a hearing.

Chairman Martin then stated that a letter should be sent to the Comptroller General tomorrow, but that before the letter was transmitted it would be necessary to clear it with the Federal Open Market Committee at the Committee's meeting tomorrow morning. He suggested, therefore, that Mr. Thurston and Mr. Vest be requested to revise draft A in the light of the various comments made at this meeting and that copies of the revised draft be sent to each member of the Board so that there would be an opportunity for any further suggestions before the meeting of the Federal Open Market Committee.

There was unanimous agreement with the procedure suggested by Chairman Martin.

Chairman Martin stated that the investment banker group with which the Treasury meets on Government financing had requested another meeting with the Board, the suggestion having been made that the visit be at 11:45 a.m. on June 28, 1955, following a meeting of the group with representatives of the Treasury.

There was some discussion of the advantages and disadvantages in acceding to requests of this kind, at the conclusion of which it was agreed unanimously to extend an invitation to the group to meet with the Board at the time suggested.

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Governor Mills referred to the agreement at the meeting of the Board on May 18, 1955, to have a meeting late this month with the chairmen of the respective consultant groups engaged in the studies being made for the Congressional Subcommittee on Economic Statistics (now headed by Representative Bolling) and stated that such a meeting had been arranged tentatively for 10:00 a.m. on June 27, 1955.

There was unanimous agreement that the meeting should be held at the time suggested.

Governor Balderston stated that he had extended an invitation to Mr. Exter, Vice President of the New York Reserve Bank, to meet with the Board on the morning of Thursday, June 30, 1955, to comment on his recent trip to Europe.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 20, 1955, were approved unanimously.

The meeting then adjourned.



Secretary