

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 26, 1952. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Dembitz, Assistant Director,
Division of International Finance
Mr. Tamagna, Chief, Financial Operations
and Policy Section, Division of Inter-
national Finance

At Chairman Martin's request, Mr. Dembitz made a statement with respect to a preliminary draft of a report relating to the internal financial situation of member countries of the Organization for European Economic Cooperation, prepared by a committee of experts on which Mr. Marget, Director of the Division of International Finance, was serving as United States Representative at the request of the Mutual Security Agency. Mr. Dembitz also reported on discussions relating to the proposed settlement of external German debts and, following a brief discussion of his reports, he and Mr. Tamagna withdrew from the meeting.

Chairman Martin referred to the discussion at the meeting on June 19, 1952, of the proposed agreement on bank supervisory matters which was being worked out by a committee composed of representatives of bank supervisory agencies on which Governor Powell had served as a representative of

6/26/52

-2-

the Board. He suggested that Governor Robertson be designated to succeed Governor Powell in connection with matters being considered jointly by the Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Association of Supervisors of State Banks, including the proposed agreement on bank supervisory matters.

This suggestion was approved
unanimously.

There was then presented a letter from the Secretary of the Board of Directors of the Federal Reserve Bank of Minneapolis dated June 23, 1952, advising the Board of the resignation of J. N. Peyton, effective June 30, 1952, as President of the Minneapolis Bank and as alternate member to represent the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco on the Federal Open Market Committee. The letter also stated that the Directors of the Bank had appointed Oliver S. Powell as President, effective July 1, 1952, for the unexpired portion of the term ending February 29, 1956, subject to approval of the Board of Governors of the Federal Reserve System.

Mr. Carpenter stated that subsequent to receiving the letter advising of Mr. Powell's appointment, a telegram was received from the Secretary of the Minneapolis Bank dated June 25 stating that the Board of Directors had fixed Mr. Powell's salary at \$25,000 per annum, subject to the approval of the Board of Governors.

6/26/52

-3-

Upon motion duly made and seconded and by unanimous vote, the Board approved a letter to Mr. Peyton, President, Federal Reserve Bank of Minneapolis, reading as follows, it being understood that announcement of the appointment would be made by the Federal Reserve Bank of Minneapolis and that no announcement would be made by the Board:

"In accordance with the action taken by the Board of Directors as indicated in Mr. McConnell's letter of June 23, 1952, and your telegram of June 25, the Board of Governors approves the appointment of Mr. Oliver S. Powell as President of the Federal Reserve Bank of Minneapolis effective July 1, 1952; for the remaining portion of the five-year term ending February 29, 1956.

"The Board of Governors also approves payment of salary to Mr. Powell at the rate of \$25,000 per annum for the period July 1, 1952, through May 31, 1953."

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Leedy, President, Federal Reserve Bank of Kansas City, relating to the continuance in active service at that Bank of Mr. John Phillips, Jr., Vice President, who had now passed retirement age of 65 but had been continued in active service until July 1, 1952, and Mr. Maurice Allendoerfer as Assistant Federal Reserve Agent and audit clerk, who would reach age 65 on June 28, 1952. The Kansas City Bank had requested in a letter dated June 13, 1952, that Mr. Phillips be continued for an additional period of two months from July 1, 1952 to August 31, 1952, to assist the Bank during a period in which other changes in the office staff of the Bank were being made, and that Mr. Allendoerfer be continued in service for a

6/26/52

-4-

period of one year beyond July 1, 1952, on the grounds that he was a member of the executive council of the American Institute of Banking, that as such his term would not expire until June 30, 1953, that he might be unable to complete the term if he were not in active service at a bank, and that it would serve the convenience of the Kansas City Bank to have his service as Assistant Federal Reserve Agent and audit clerk for the additional one-year period.

Governor Robertson stated that he felt the basis for considering Mr. Allendoerfer's continuance beyond age 65 should rest entirely on the need for his services at the Kansas City Bank and that unless the Bank felt it important that his services be continued, he should not be retained.

Thereupon, approval was given to a letter to Mr. Leedy in the following form:

"With reference to your letter of June 13, 1952, the Board approves the payment of salary to Mr. John Phillips, Jr., Vice President, for a period of two months from July 1 through August 31, 1952, at the present rate of \$11,000 per annum.

"The Board also approves the payment of salary to Mr. Maurice Allendoerfer, Assistant Federal Reserve Agent and audit clerk, for a period not to exceed one year from July 1, 1952, at a salary of \$5,196 per annum. Payment of Mr. Allendoerfer's salary beyond his retirement date was considered by the Board in the light of your letter, and the view was expressed that the controlling point should not be his service as a member of the executive council of the American Institute of Banking, but rather the need for his services at the Federal Reserve Bank of Kansas City. On this basis, the Board approves payment of his salary for as long as his services are needed at your Bank with the understanding, however, that the arrangement will not in any event continue beyond June 30, 1953."

6/26/52

-5-

A draft of letter to Mr. Sproul, President, Federal Reserve Bank of New York, also had been circulated to the members of the Board before this meeting with respect to a request contained in a letter from that Bank dated June 10, 1952 that John H. Williams, Economic Adviser, be retained in service as a consultant on a per diem basis for six months following his retirement on June 30, 1952.

Mr. Szymczak noted that it had been customary to make adjustments in compensation for any persons retained in active service by the Federal Reserve Banks following attainment of retirement age, whereas the New York Bank proposed that Mr. Williams be retained in service at the same per diem rate of pay that he has been receiving prior to retirement. He reviewed briefly discussions that had taken place between the Board and the New York Bank regarding Mr. Williams' services in the past and stated that, while he would not oppose approval of the retention of Mr. Williams on the basis proposed by Mr. Sproul, he felt the Board should consider the matter in the light of the desirability of making adjustments in salaries payable to persons who remained in active service after retirement.

Chairman Martin stated that Mr. Stevens, Chairman of the Board of the New York Bank, had indicated to him that it was not expected Mr. Williams' services would be used extensively and he suggested that the Board approve the arrangement proposed by Mr. Sproul with the understanding in no circumstances would it be continued beyond the end of the current

6/26/52

-6-

calendar year.

Thereupon, a letter to Mr. Sproul was approved unanimously in the following form:

"Reference is made to your letter of June 10, 1952, regarding the retirement of Dr. John H. Williams, Economic Adviser, and the desire of your Board of Directors to retain his services as a consultant on a per diem basis for six months following his retirement.

"For reasons that have been discussed in the past, the Board would prefer not to have continuing arrangements of this kind at the Federal Reserve Banks. Furthermore, in the ordinary case of the employment of any individual after he has been placed on retirement, it feels that as indicated in your letter some adjustment should be made in his compensation in the light of the retirement payments. In all the circumstances, however, the Board is willing to approve the compensation for Dr. Williams at the rate of \$84.62 per day for each day he spends at the Bank, or at a Federal Reserve or related meeting elsewhere, plus his reasonable travel, lodging, and subsistence expenses for the period July 1 to December 31, 1952. In taking this action, the Board asked me to advise you that it would not be willing to approve compensation under the arrangement beyond the end of the current calendar year."

Before this meeting there had been sent to each member of the Board a copy of a letter dated June 19, 1952 from Stuart A. Rice, Assistant Director for Statistical Standards, Bureau of the Budget, Washington, D. C., relating to the arrangement approved by the Board on May 8, 1952, under which the Board would join with the Department of Commerce and the Economic Stabilization Agency in defraying the cost (approximately \$30,000) of continuing for another year the collection and tabulation by the Federal Trade Commission and the Securities and Exchange Commission of financial

6/26/52

-7-

statements of trade groups.

Mr. Carpenter stated that since approval of the arrangement by the Board on May 8, it had developed that the Department of Commerce would not have the funds to enable it to participate, and that the letter from Mr. Rice dated June 19 inquired whether the Board would be willing to participate with the Economic Stabilization Agency on the basis of a minimum program costing \$20,000, of which the Board would pay \$10,000. Mr. Carpenter added that the Economic Stabilization Agency expected to have the funds available and to give the Bureau of the Budget a letter of intention to pay its share of the cost, and that in order to keep the program in operation during the first quarter of fiscal year 1953 it might be necessary for the Board to advance as much as \$5,000 of its payment by July 1, 1952.

Governor Robertson said he had understood that the program approved by the Board in May, which was to cost approximately \$30,000, represented a minimum program, and he raised the question whether the project now contemplated at a cost of \$20,000 would provide sufficiently useful and reliable data to warrant their collection.

Governor Szymczak suggested that the matter be referred to Governor Mills with power to act and this suggestion was approved unanimously.

Secretary's Note: Pursuant to the foregoing, Governor Mills discussed the matter with Mr. Young, Director, Division of Research and Statistics, and approved a letter dated June 26, 1952 to Mr. Rice, Assistant Director for Statistical Standards, Bureau of the Budget, reading as follows:

6/26/52

-8-

"This is in reply to your letter of June 19, 1952, inviting participation of the Board of Governors of the Federal Reserve System with the Economic Stabilization Agency in financing the proposed limited-scale wholesale and retail trade reporting program of the Securities and Exchange Commission and Federal Trade Commission for fiscal 1953.

"Provided that the Economic Stabilization Agency contributes the sum of \$10,000 for this project, the Board of Governors of the Federal Reserve System will contribute an equal amount, payments of \$5,000 (\$750 to the Securities and Exchange Commission and \$4,250 to the Federal Trade Commission) each to be made by the Board on July 1, 1952 and January 1, 1953. In the event that existence of the Economic Stabilization Agency is terminated by act of Congress, or that the Agency's authorized appropriation is inadequate to permit its full participation in this program, the Board of Governors will:

a. Contribute equally with the Economic Stabilization Agency up to a maximum sum of \$10,000, except that if the Economic Stabilization Agency is, for whatever reason, unable to contribute any amount toward the SEC/FTC program, then

b. Participation by the Board of Governors of the Federal Reserve System will be limited to the reimbursement of expenses actually incurred by the Securities and Exchange Commission and the Federal Trade Commission up to, but not exceeding, \$2,500.

"The Board of Governors of the Federal Reserve System is in complete sympathy with this proposed financial reporting program for wholesale and retail trade, and hopes that financing of the program can be effected as planned. At the same time, it feels that its own participation must be contingent upon that of the Economic Stabilization Agency, except to the extent noted above."

There was then presented a letter to the Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, Washington, D. C., reading as follows:

"This refers further to your letter of May 27, 1952, regarding the subject of bank mergers, which was acknowledged by

6/26/52

-9-

"me on June 4, 1952.

"In accordance with your request, we have had prepared and there are enclosed tables bringing up-to-date those which were printed at pages 341-349 of the hearings on H. R. 2357 in 1945. While the statistics regarding bank holding company groups have been prepared on a somewhat different basis, we believe that they will provide the information which you wish.

"In your letter you expressed the belief that there should be legislation designed to prevent bank mergers, whether by means of acquisition of assets or stock or otherwise, which might adversely affect competition, and also to prevent the undue expansion of bank holding companies; and you asked that we submit suggestions as to specific statutory language for this purpose.

"In 1945, when the bill H. R. 2357 to amend section 7 of the Clayton Act was pending in Congress, the Board, in a letter to Chairman Sumners of the House Judiciary Committee dated March 21, 1945, recommended that the provisions of the bill which required prior consent for acquisitions of stock or assets not be limited only to those cases subject to the jurisdiction of the Federal Trade Commission. As you know, however, the bill that finally became law on December 29, 1950, extended the coverage of section 7 of the Clayton Act only to asset acquisitions by corporations subject to the jurisdiction of the Federal Trade Commission. Moreover, no provision was made for obtaining prior consent for either stock or asset acquisitions. Consequently, as pointed out in your letter, the provisions of section 7 of the Clayton Act relating to banking institutions still apply only to acquisitions of stock and do not refer to prior approval of such acquisitions.

"In 1950, Congress amended the Federal Deposit Insurance law to require prior consent of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Board in certain cases of consolidations and mergers between insured banks. These requirements are now contained in section 18(c) of the Federal Deposit Insurance Act of September 21, 1950. However, such prior consent is required only if the capital stock or surplus of the resulting bank will be less than the aggregate capital stock or aggregate surplus, respectively, of the merging or consolidating institutions. Therefore, if the continuing bank sufficiently increases its capital stock and surplus, the merger or consolidation may be consummated without such prior

6/26/52

-10-

"consent. Moreover, since section 18(c) refers to capital stock and surplus rather than total capital structure, it is possible for a large bank to take over a small bank, without obtaining such prior consent, merely by converting undivided profits to capital and surplus.

"It is apparent, therefore, that present statutory provisions with respect to bank mergers and consolidations do not provide effective means for the prevention of mergers and consolidations which may result in a lessening of competition or a tendency to monopoly. Even in those cases in which consent is necessary, the law does not specifically require the Comptroller of the Currency, the FDIC, or the Board, in determining whether to grant or withhold consent, to consider whether the proposed merger or consolidation will lessen competition or tend to a monopoly or to consider any other specific standards or guides.

"It is believed that, if any new legislation is to be introduced with respect to bank mergers and consolidations, it may be preferable for such legislation to be in the form of an amendment to section 18(c) of the Federal Deposit Insurance Act rather than section 7 of the Clayton Act. If the Clayton Act should be amended along the lines proposed by the Board in 1945, it is obvious that there would be some measure of duplication between the provisions of that Act and the provisions of section 18(c) of the Federal Deposit Insurance Act, since in many instances it would be necessary for consent to be obtained under both laws and from two different Government agencies. For example, in the case of a consolidation resulting in a national bank without the capital and surplus specified by section 18(c), it would be necessary to obtain the consent of the Comptroller of the Currency under that section and also to obtain consent of the Board under the provisions of section 7 of the Clayton Act.

"We believe, however, that the objectives which you have in mind could be accomplished by an appropriate amendment to section 18(c) which would broaden the scope of that section so as to require prior consent of the Comptroller of the Currency, the Board, or the FDIC, as the case might be, to any proposed bank merger, consolidation, acquisition of assets,

6/26/52

-11-

"or assumption of deposit liabilities, together with a requirement that the designated agency, in each case, shall consider certain standards or factors, including whether the effect of the proposed transaction may be to lessen competition unduly or to tend unduly to create a monopoly. Distribution of authority in this manner would be consistent with the traditional division of jurisdiction among these agencies.

"There is enclosed a draft of a suggested amendment to section 18(c) of the Federal Deposit Insurance Act which we believe would carry out this proposal and accomplish the objectives stated in your letter. As you will note, the suggested draft would cover mergers and consolidations of noninsured banks which are not presently covered by section 18(c). However, the draft does not name the agency which would be required to consent to such mergers and consolidations but leaves the designation of such agency to the determination of Congress.

"Insofar as bank holding companies are concerned, we believe that effective authority for limiting and regulating the expansion of such companies would be provided by legislation to implement the recommendations recently made by the Board in a letter to Chairman Spence, of the House Banking and Currency Committee, dated April 11, 1952. For your information, there is enclosed a copy of that letter, together with its enclosures. As you will note, the Board there recommended that all acquisitions of bank stocks by a bank holding company should be subject to the prior consent of an appropriate Government agency and that, in giving its consent, that agency should be required to consider certain specified factors, one of which would be 'whether the proposed acquisition would have the effect of expanding the size of the holding company group beyond limits consistent with the policy of Congress in favor of local ownership and control of banks and competition in the field of banking or with adequate and sound banking in the public interest.'

"Because of our desire to furnish you with the information requested as promptly as possible, we have not taken up the enclosed suggested amendment with the Comptroller of the Currency and the FDIC, both of which would, of course, be

6/26/52

-12-

"directly concerned with such a proposal if it is to be given active consideration in your Committee. For the same reason, we have not discussed the matter with the Bureau of the Budget. It is quite possible, of course, that these agencies may have different views as to the substance or language of the suggested amendment and, accordingly, we are taking the liberty of sending them copies of this letter and its enclosures."

Approved unanimously.

In accordance with the understanding at the meeting on June 24, 1952, there had been circulated among the members of the Board a revised draft of letter to the Federal Reserve Banks regarding the Federal Reserve building program reading as follows:

"The Board's letter of December 7, 1950 (S-1220; F.R.L.S. #3053) stated that in the light of the needs of the Defense Production Program the Board did not, under the existing conditions, favor building construction by the Federal Reserve Banks unless the need therefor was of an emergency, as distinguished from an urgent, character.

"According to the information that has been furnished the Board during the past few years, numerous building programs are contemplated when circumstances permit. These programs have been deferred for policy considerations and, in the case of branch buildings, are also awaiting necessary legislation. It seems desirable that building needs be reviewed in order that programs may get underway when policy and legislation permit, and when, so far as practicable, the construction can contribute to the desired economic activity.

"In view of the indicated scope of the contemplated programs, which include some substantial additions to existing buildings as well as the construction of some new branch buildings, it seems desirable that the System consider, as best it can, the size and scope of the activities which the buildings should be planned to accommodate over the next 20 or 25 years. The Board would like to have a full discussion of this with the Presidents at the time of the next Presidents' Conference. In preparation for such discussion, the Board would appreciate

6/26/52

-13-

"having well in advance of the Conference an expression of your views.

"The Board will endeavor to obtain further legislation at an appropriate time regarding the limitations of Paragraph 9 of Section 10 of the Federal Reserve Act, which authorizes the Board to approve branch bank building construction up to \$10,000,000 for 'building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures.' At the next Presidents' Conference, the Board would like also to discuss with the Presidents the nature and the timing of the legislation regarding branch buildings to be submitted to Congress.

"In this connection, please be prepared to advise by December 1 as to what branch building projects, if any, are contemplated, classifying them in three categories:

- (1) Emergency, as distinguished from urgently needed programs.
- (2) Programs considered as urgent.
- (3) Programs considered to be desirable when circumstances fully justify their being undertaken.

"At that time please give for each project an estimate of the total cost. It is recognized that estimates at that time, in most cases, can only be preliminary and approximate, and it is not suggested that the Reserve Banks go to any great expense in obtaining them. Nevertheless, reasonable approximations of costs are necessary in case the legislation Congress would consider would be an increase in the present \$10,000,000 authorization for 'building proper.'"

Upon motion by Governor Szymczak,
the letter was approved unanimously.

Governor Szymczak stated that he had been invited to go to Philadelphia on Wednesday, July 2, 1952, for a meeting with Messrs. Johns and Williams, Chairman and former Chairman of the Personnel Committee of the Presidents Conference, and Messrs. Balderston and Newman who worked on the Balderston report on executive development. Governor Szymczak said the meeting was called to discuss matters relating to executive

6/26/52

-14-

training and development programs at the Federal Reserve Banks as well as salary matters, that the discussions would be exploratory and that no commitments would be made.

There was presented a memorandum dated June 18, 1952, from Mr. Williams, Assistant Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective July 6, 1952:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Eleanor S. Frase	Economist	\$6,340	\$6,540
Charles Trescott	Library Assistant	3,575	3,655

Approved unanimously.

At this point Mr. Allen, Director, Division of Personnel Administration entered the room.

Following a discussion, unanimous approval was given to memoranda dated June 18, 1952, from Mr. Williams, Assistant Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective July 6, 1952:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Elizabeth B. Sette	Economist	\$5,810	\$5,940
Anne D. Dougherty	Clerk	3,030	3,175

Memorandum dated June 20, 1952, from Mr. Sloan, Director, Division of Examinations, reading as follows:

6/26/52

-15-

"On June 4, 1952, the Board approved a reception for the Field Force of the Division of Examinations, which was held on June 11, 1952. In the memorandum requesting approval of the reception, reference was made to the program for the meeting of the Field Force which included luncheon in the Staff Dining Room on June 10 and June 11, but no special authorization was requested for such luncheons as it was not realized that special authorization was required. The Fiscal Section of the Division of Administrative Services calls attention to the fact that special authorization of the Board is required if the expense of the luncheons is to be absorbed by the Board because the members of the Field Force are Board employees, who were attending the conference as official business and received the usual per diem while in Washington. Such authorization is respectfully requested."

Approved unanimously.


Governor Robertson stated that he had received a call from a representative of the American Bankers Association suggesting that representatives of that Association, of the Independent Bankers Association, of the Comptroller of the Currency, and of the Federal Reserve meet for the purpose of discussing proposed holding company legislation, concerning which he had appeared before the House Banking and Currency Committee on Tuesday of this week. He stated that he had responded that he would be glad to meet with the group some time after August 1 in an effort to work out differences in the views of the different agencies as to holding company legislation. It was understood that Governor Robertson would keep the Board informed of the results of such discussions relating to holding company legislation.

At this point Mr. Allen withdrew from the meeting, and the following additional action was taken by the Board:

6/26/52

-16-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 25, 1952, were approved unanimously.


Secretary.