

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 9, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel

Reference was made to a telegram dated October 8, 1953, from Mr. Sproul, President of the Federal Reserve Bank of New York, advising of amendments made by the New York State Banking Board that day to its General Regulation No. 3. The amendments repealed those sections which established maximum dividend rates on savings bank deposits and savings and loan association shares and removed the ceiling on interest payments on savings accounts in commercial banks. The ceiling on time deposits of commercial banks was left unchanged at 1 to 2-1/2 per cent according to maturity, equal to the maximum rates permitted under the Board's Regulation Q, Payment of Interest on Deposits, and the comparable regulation of the Federal Deposit Insurance Corporation. Mr. Sproul's telegram pointed out that the action of the New York State Banking Board raised the fundamental question whether control of interest paid on small savings or thrift deposits was any longer necessary or desirable.

10/9/53

-2-

Governor Robertson stated that he had discussed informally with members of the staff what action, if any, should be taken by the Board in the light of the action of the New York State Banking Board and that he did not believe it was necessary for the Board to do anything for the moment except to confer with the Federal Deposit Insurance Corporation and ascertain the views of that organization. He pointed out in this connection that while all savings banks in the State of New York are insured nonmember institutions, they are not limited in the payment of dividends on deposits by regulation of the Federal Deposit Insurance Corporation, and that an important question would be whether the Federal Deposit Insurance Corporation should now extend the regulation to cover these institutions. Governor Robertson also referred to a tabulation prepared in the Division of Research and Statistics under date of October 9, 1953, which indicated that the average rate of interest paid on time and savings deposits by insured commercial banks was well within the maximum rate prescribed by the Board's Regulation Q. He added that, although a few commercial banks were understood to be paying the maximum permissible rate of interest on some types of time and savings deposits, the number of institutions involved was not large.

Governor Robertson stated that there was a question in his mind whether current circumstances warranted the Board's continuing to prescribe maximum rates of interest on time and savings deposits that

10/9/53

-3-

may be paid by member banks and he suggested that this question should be studied carefully by the Board.

During the course of Governor Robertson's comments, Governor Szymczak joined the meeting.

In the discussion which followed, reference was made to reasons for the inclusion in the Banking Act of 1933 of the requirement that the Board prescribe maximum rates of interest on time and savings deposits and to changes in conditions in recent years which might cast doubt on the need for continuing such regulations. Reference also was made to the related question of whether the prohibition against the payment of interest on demand deposits should be removed, to the competition for savings which commercial banks are receiving from savings and loan associations and other institutions, and to questions which have arisen recently regarding the application of Regulation Q to various forms of certificates of deposits with varying rates of interest which have been devised by member banks. It was brought out that the Board and the Federal Deposit Insurance Corporation had cooperated closely in the consideration of most questions in this field and that any action that the Board might consider should be taken up with the Corporation.

Chairman Martin then suggested that Governor Robertson be requested to discuss the matter with the Federal Deposit Insurance Corporation in the light of the action taken by the New York State Banking Board to ascertain the views of the Corporation and that Mr. Solomon be

10/9/53

-4-

requested to prepare for the Board's information, preliminary to further consideration of the matter, a summary of the legislative history of existing Federal legislation relating to the payment of interest on deposits.

Chairman Martin's suggestions were approved unanimously.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on October 7, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on October 8, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a request that Mr. Benner, Assistant Director, Division of Examinations, be authorized to travel to Cleveland, Ohio, during the period October 13-17, 1953, to make a survey of the Bank Examination Department of the Federal Reserve Bank of Cleveland and meet with the Bank's examining staff.

Approved unanimously.

Reference was made to the discussion at the meeting yesterday regarding a memorandum dated October 6, 1953, in which Mr. Young stated that he had been invited by the Ford Foundation to serve as a member of

10/9/53

-5-

an advisory group of the Foundation's Division of Economic Development and Administration. It was the consensus at yesterday's meeting that Mr. Young should not accept the invitation for various reasons, but it was understood that the matter would be considered further if there were additional factors which Mr. Young would like to bring to the Board's attention.

At the request of the Board, Mr. Young outlined the work which the advisory group was to undertake, stating that the officer of the Ford Foundation who invited him to join the group explained that the Foundation was developing its areas of interest, that the trustees had directed the Division of Economic Development and Administration to formulate broad objectives for a program which the Foundation might support, and that the advisory group, consisting of a number of prominent economists, was being asked to meet in New York City on October 16 and 17, and probably a few times thereafter over the next several months, to consider problems in the area of strengthening the domestic economy and as a result to formulate a framework of specifications for activities for which the Foundation might want to provide funds. Mr. Young went on to say that the area of discussion by the advisory group appeared to be one in which the Board had a practical interest from the standpoint of development of its own research program. He also referred to the benefits which might be derived from professional association with outstanding economists in an undertaking of this sort.

10/9/53

-6-

The matter was considered from the standpoint of the requirements on Mr. Young's time which would be involved and the consequences which might follow from participation by members of the Board's staff in the activities of various kinds of outside organizations.

During a discussion of the methods that might be employed to assure that the Board's research staff had the benefit of the views of leading economists outside the Federal Reserve System on current economic problems, Chairman Martin said that he would favor the arrangement of periodic seminars which would be held in the Board's offices at the Board's expense and in which outstanding economists would be invited to participate.

The other members of the Board expressed agreement with Chairman Martin's view that such seminars would be valuable.

At the conclusion of the discussion, Mr. Young said that he did not feel strongly about the matter and that in view of the questions that had been raised, he would decline the invitation from the Ford Foundation.

Mr. Young then stated that he had been invited by the National Bureau of Economic Research to participate in a conference to be held at Princeton University later this month at which leading economists would discuss problems of stabilization and measures which it would be appropriate for the Government to institute in the event of a business recession.

10/9/53

-7-

It was understood that there would be no objection to Mr. Young's attending the conference.

Mr. Young also stated that Secretary of Commerce Weeks had appointed a committee of business economists and businessmen to consider the program of the Bureau of the Census and that the committee had asked members of the Board's research staff to attend a meeting today to describe the uses to which the statistics compiled by the Bureau of the Census were put by the Board and outline various things which in their opinion might be done to strengthen the Bureau's program. Mr. Young said that the comments of the Board's staff would be at the technical level.

It was understood that there would be no objection to participation in the meeting along the lines proposed by Mr. Young.

Governor Evans commented on the joint meeting of the directors of the head office and branches of the Federal Reserve Bank of Richmond which he attended in Baltimore yesterday. In this connection, he expressed the opinion that it would be desirable if arrangements could be worked out for at least one member of the Board to attend the joint meetings of head office and branch directors when they were held at any of the Federal Reserve Banks.

Governor Evans also suggested consideration by the Board at an early date of a further reduction in reserve requirements of member

10/9/53

-8-

banks, stating that he felt such action might contribute to a lending psychology at country banks which would be helpful in averting any tendency toward a recession in business.

Mr. Young then withdrew from the meeting.

Chairman Martin referred to the discussion at the meeting on September 29, 1953, concerning a memorandum dated September 16, 1953, from Under Secretary of the Treasury Folsom requesting the views of the Board on a reduction in the rate of capital gains taxation, and to the understanding at that time that he (Chairman Martin) would discuss the matter with Mr. Folsom and take the matter up with the Board again.

Chairman Martin said that Mr. Folsom seemed to want a formal reply from the Board and that in the circumstances he had requested Mr. Thurston to draft a letter along the lines that a reduction in the rate of capital gains taxation would not be likely to have serious consequences from the standpoint of the Government securities market and that the extent to which it would tend to increase the fluidity of investment funds over the years would be difficult to determine.

During a discussion of the matter, question was raised whether the technical memorandum prepared by Mr. Miller, Economist in the Division of Research and Statistics, under date of September 24, 1953, should be transmitted to Mr. Folsom with Chairman Martin's letter. Governor Robertson suggested that Mr. Miller's memorandum not be

10/9/53

-9-

transmitted but that the information therein be incorporated in the draft of reply to Mr. Folsom to the extent deemed desirable.

Governors Evans and Mills, who expected to be away from their offices next week, stated that they would be agreeable to a letter to Mr. Folsom in whatever form might be satisfactory to Chairman Martin.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 8, 1953, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointments, 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>
Esther P. Locke, Clerk-Typist	Research and Statistics	Temporary (3 months)	\$3,030
Floyd L. Whittington, Chief, Far Eastern Section	International Finance	Temporary indefinite	10,000
Ruth J. Deck, Clerk-Typist	Examinations	Temporary indefinite	3,110
Walter M. Williams, Assistant Federal Reserve Examiner	Examinations	Temporary indefinite	4,580
Ruth A. Brown, Charwoman	Administrative Services	Temporary (2 months)	2,420
Garnet M. Lawrence, Telephone Operator	Administrative Services	Temporary indefinite	2,950
Stewart C. Crews, Cafeteria Helper	Administrative Services	Temporary (2 months)	2,420

10/9/53

-10-

Reinstatement following military service

Eugene C. Harrison, Clerk in the Legal Division, with basic annual salary at the rate of \$3,335, effective October 19, 1953.

Salary increases, effective October 11, 1953

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Margaret T. Notter, Index Clerk		\$3,335	\$3,415
Jeanne Krieger Semia, General Assistant		5,310	5,435
<u>Legal</u>			
Eleanor E. Omohundro, Clerk-Stenographer		3,785	3,910
<u>Research and Statistics</u>			
Katherine Black, Clerk		3,335	3,415
Dorothy A. Culbertson, Clerk		3,190	3,270
<u>Bank Operations</u>			
Doris V. Bubb, Statistical Clerk		3,335	3,415
<u>International Finance</u>			
Thomas E. Summers, Economist		5,185	5,310
Yves Maroni, Economist		7,040	7,240
<u>Personnel Administration</u>			
Marjorie Kidd, Clerk-Stenographer		3,270	3,415
<u>Administrative Services</u>			
Margaret Dalton, Charwoman		2,840	2,910

10/9/53

-11-

<u>Salary increases, effective October 11, 1953</u>		(continued)	
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Catherine Gallagher, Cafeteria Helper		\$2,700	\$2,770
Florence A. Norman, Cafeteria Helper		2,420	2,490
Ida Sutphin, Cafeteria Helper		2,560	2,630
Rudolph Reece, Laborer		2,792	2,910
<u>Office of the Controller</u>			
Kathleen J. O'Connor, Clerk		3,575	3,655

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

This will acknowledge your letter of September 29, 1953, advising of certain changes in your bank examination personnel.

It is noted that Thomas McGovern, Jr., Trust Examiner for your bank, will be transferred to a new position to be referred to as Assistant to Officers for a period of one year but that he will participate in the examinations of the larger trust departments during this period.

Notation is being made in the Board's records that the appointment of Loring C. Nye as an assistant examiner for your bank was cancelled effective October 1, 1953.

In accordance with your request, the Board approves the designation of Francis C. Albertson and Robert V. Clapp as special assistant examiners for the Federal Reserve Bank of Boston for the specific purpose of rendering assistance in the examination of State member banks only.

Approved unanimously.

10/9/53

-12-

Letter to Mr. Slade, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the recommendation contained in your letter of October 2, 1953, the Board of Governors extends to January 11, 1954, the time within which the Occidental Savings and Commercial Bank, North Hollywood (Los Angeles), California, may accomplish membership in the Federal Reserve System, as provided in our letter of August 26, 1953.

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks except Minneapolis reading as follows:

The Board's letter of August 3, 1948, S-1030, outlined a procedure to be followed in connection with obtaining the Board's approval annually for salaries of officers of Federal Reserve Banks. In view of the adoption earlier this year of the new plan for administration of officers' salaries, the procedure outlined in S-1030 is obsolete and in due course will be superseded by a statement of the procedure to be followed in the future.

You will recall that the new plan for the administration of officers' salaries contemplated that beginning this year they would be considered in the fall months and made effective January 1, rather than on staggered dates later in the year as has been the practice in the past. With this thought in mind, salaries of officers of each Federal Reserve Bank were approved by the Board under the new plan for the period ending December 31, 1953. The procedure was referred to on the first and sixth pages of the Report of the Special Committee on Officers' Salary Administration dated March 17, 1953, copies of which were sent to the Chairman and President of each Federal Reserve Bank with a letter from the Special Committee dated March 18, 1953.

In order that the Board may give consideration, in connection with your budget, to the amount provided for officers' salaries in 1954, it will be appreciated if you will submit

10/9/53

-13-

as promptly as possible and in any event not later than November 15, a list of proposed official salaries as fixed by the Board of Directors of your Bank for the calendar year 1954. It will be helpful if the list can be accompanied by (1) such comments as seem pertinent with respect to any proposed salary increases, and (2) an explanation of any substantial difference between the aggregate of proposed officers' salaries and the amount provided in your budget for 1954 taking into account any additions or reductions in official staff after the first of the year.

A copy of this letter is being sent to the President of your Bank.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

In order to incorporate changes in references made necessary by 1953 amendments to the Defense Production Act and by the issuance of Executive Order No. 10480 on August 14, 1953, the standard form of V-loan guarantee agreement is being reprinted and, for identification purposes, will be designated as "Form of September 27, 1950 (As amended to October 1, 1953)".

The reprinted standard form of agreement also includes a minor change in the language of section 9 which was suggested by the Department of Defense and which has been approved by the Board of Governors after consultation with the guaranteeing agencies.

As previously in effect, section 9 was subject to the construction that, when the Guarantor is the Holder of the obligation, the Financing Institution might request the Guarantor to institute "legal proceedings" against a party other than the borrower in order to enforce realization of the collateral and that if the Guarantor did not institute such proceedings within 30 days, the guaranteed percentage would be increased to 100 per cent. Thus, in one instance, the Department of the Army was requested to institute legal proceedings against itself in

10/9/53

-14-

order to enforce a disputed claim on an army contract of a bankrupt borrower. The present amendment inserts the words "against the Borrower" after the words "legal proceedings" in order to make it clear that such an increase in the guaranteed percentage will occur only in the event that the Guarantor, when the Holder of the obligation, fails within the prescribed time to institute requested legal proceedings against the borrower.

Approved unanimously.

Letter for the signature of Chairman Martin to the United States Civil Service Commission, Washington, D. C., (Attention: Security Appraisal Staff) reading as follows:

In accordance with the request contained in Mr. Young's letter of October 5, 1953, I am returning to you the questionnaire on our security program.

If you desire further information on this matter, I shall be happy to furnish it.

Approved unanimously.

Letter to Mr. C. Victor Johnson, Executive Director, Committee on Retirement Policy for Federal Personnel, Executive Office of the President, Washington, D. C., reading as follows:

Your letter of August 24, 1953, transmitted an analysis of the Board of Governors Plan of the Federal Reserve Retirement System, with a request that it be reviewed for accuracy.

Mr. Allen was asked to review the questions and the draft which you submitted and the results of his review are given in the attached memorandum. Also enclosed for your use are two copies of the latest Annual Report of the Federal Reserve Retirement System.

The analysis, with the modifications suggested in the attached material, would appear to us to be accurate, and

10/9/53 -15-

the Board will have no objection to its inclusion in the Committee's report to Congress.

Approved unanimously.

[Handwritten signature: A. Carpenter]
Secretary

B. L. Allen, Director,
Division of Personnel Administration

To travel to Cleveland, Ohio, and
Michigan, to review the personnel work of
Bank of Cleveland and Chicago and the
Banc and to make better acquainted with
existing institutions.

Edgar A. Long, Director,
Division of Research and Statistics

To travel to New York, New York,
to be held by the National Industrial Conference

Prior to this meeting was the
copy of the Board's draft of letter to
Washington, D. C., dated

This is with reference to
23, 1953, File 100-100, and
with representatives of the Board