Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 12, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Robertson
Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Allen, Director, Division of Personnel Administration

The following requests for travel authorization were presented:

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<th>Name and title</th>
<th>Duration of Travel</th>
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<tr>
<td>D. L. Allen, Director, Division of Personnel Administration</td>
<td>October 18-24, 1953</td>
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<td>To travel to Cleveland, Ohio; Chicago, Illinois; and Detroit, Michigan, to review the personnel function at the Federal Reserve Banks of Cleveland and Chicago and the Detroit Branch of the latter Bank and to become better acquainted with the management of the respective institutions.</td>
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| Ralph A. Young, Director, Division of Research and Statistics | October 6-7, 1953 |
| To travel to New York, New York, to attend a forum on gold arranged by the National Industrial Conference Board. |

Approved unanimously.

Prior to this meeting there had been circulated among the members of the Board a draft of letter to the United States Civil Service Commission, Washington, D. C., reading as follows:

This is with reference to Mr. Winslow's letter of July 23, 1953, File I:PEG:hh, and our subsequent conversation with representatives of the Investigations Division.
We sincerely appreciate your cooperation in handling our full field investigations on a reimbursable basis and your offer to undertake our national agency checks. However, after further consideration, it is our feeling that while we are not in a position to make the full field investigations, we would prefer to continue to make our own national agency checks. Our present procedure has worked unusually well in the past, giving us the liaison necessary for quick pre-employment loyalty checks and also enabling us to make informal clearances of Federal Reserve Bank personnel when it is in the national interest to do so.

Let me express our appreciation of the expeditious manner in which you are handling the one full field investigation we have referred to you.

At the request of Governor Robertson, who had asked that the proposed letter be discussed at a meeting of the Board, Mr. Allen explained the procedure for making so-called national agency checks and stated reasons why it appeared desirable for the Board to continue to make such checks. He also said that representatives of the Civil Service Commission with whom the matter was discussed informally had indicated that they were willing to accept the view that the Board should continue to make its own national agency checks.

Thereupon, the letter to the Civil Service Commission was approved unanimously.

Mr. Allen then withdrew from the meeting.

There had been sent to the members of the Board prior to consideration at a meeting copies of a memorandum dated September 29, 1953, from Mr. Marget, Director, Division of International Finance, recommending that Samuel I. Katz, Economist in the Western European and British
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Commonwealth Section of that Division, be authorized to visit the Bank of Canada in order to study Canada's financial conditions and policies, with particular attention to its foreign exchange and balance of payments prospects. The memorandum stated that during the trip Mr. Katz would also have opportunities for discussions with Canadian bankers and businessmen and with Canadian Government and university economists. It proposed a visit of three weeks' duration, beginning around October 26, 1953, with the understanding that Mr. Katz would spend most of his time in Ottawa, with shorter visits to Montreal and Toronto.

In a discussion of the matter, Governor Vardaman stated that although he would not vote against authorizing Mr. Katz to make the trip, there was a question in his mind whether the trip was necessary since the information sought by Mr. Katz might be available at the Federal Reserve Bank of New York or elsewhere.

Chairman Martin, Governor Szymczak, and Governor Robertson expressed the view that although it did not appear that it was essential for Mr. Katz to make the trip at this particular time, it was desirable for members of the Board's staff to visit Canada and other countries occasionally to establish contacts and to obtain information regarding the central banks of the respective countries, together with information on monetary and general economic developments. Governor Robertson said that his only question was whether such visits should not be made
by the Director or Assistant Director of the Division or by a member
of the Board.

Thereupon, the proposed
visit to Canada by Mr. Katz
was approved unanimously.

At this point Messrs. Sloan, Director, Division of Examinations,
and Solomon, Assistant General Counsel, entered the room.

Prior to this meeting there had been circulated among the mem-
ers of the Board a draft of letter to the board of directors of the
Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania,
reading as follows:

Pursuant to your request submitted through the Federal
Reserve Bank of Philadelphia, the Board of Governors approves
the establishment and operation of a branch at 3701 North
Broad Street in the city of Philadelphia by the Provident
Trust Company of Philadelphia, providing the branch is es-
tablished within six months from the date of this letter.

In a memorandum dated September 14, 1953, the Division of Ex-
aminations had recommended that the above-mentioned application be de-
clined but, as stated at the meeting on September 29, 1953, Mr. Williams,
President of the Federal Reserve Bank of Philadelphia, with whom Governor
Vardaman had discussed the matter, requested that action by the Board on
the application be deferred until additional information was submitted
by the Reserve Bank. Subsequently, the Federal Reserve Bank supplied
additional information favorable to the application, and on the basis
of such information, as set forth in a memorandum dated October 7, 1953,
from the Division of Examinations, the Division recommended approval. Governor Vardaman, who had requested that the matter be discussed at a meeting of the Board, stated that his question was primarily one of procedure, that in a case of this kind where the Division concerned reversed its recommendation he felt that the Division should discuss the matter with the member of the Board who questioned the original recommendation, and that he also felt that in any case where the recommendation of the Division of Examinations was contrary to that of a Federal Reserve Bank the matter should be discussed at a meeting of the Board.

The points raised by Governor Vardaman were discussed and it was agreed unanimously that in any case in the future where it was proposed that the Board take an action contrary to the recommendation of the interested Federal Reserve Bank, the file would be circulated and the matter would be discussed at a meeting of the Board before final action was taken.

There followed a review of the facts in the Provident Trust Company case, after which there was a discussion, at the request of Governor Vardaman, of factors taken into account in the analysis of applications by State member banks for branches. During the discussion, Governor Robertson and Mr. Sloan brought out that although consideration was given in connection with any application to whether the establishment of the proposed branch might lead to undue competition or an
overbanked condition in the area, this was but one of several factors which were weighed in any given case in the light of all the circumstances involved. In response to a further inquiry by Governor Vardaman, Governor Robertson said that the potential profitability of the branch was another matter which was given serious consideration but he repeated that no single factor was considered exclusively of others bearing on the situation.

Governor Vardaman expressed agreement with the approach outlined by Governor Robertson, stating that what he wanted to avoid was the application of any hard and fast rules in the consideration of branch applications.

Thereupon, the letter to the Provident Trust Company of Philadelphia was approved unanimously in the form set forth above.

Governor Robertson then discussed the application of the Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, to establish a branch in the vicinity of the intersection of Watertown and Adams Streets, Newton, Massachusetts, which was declined by the Board's letter of September 28, 1953, to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, despite the Reserve Bank's favorable recommendation, principally because it appeared that there were already adequate banking facilities available, the Comptroller of the Currency recently having approved an application by a national bank to establish a branch in the
same area. Governor Robertson reviewed discussions of the matter with Mr. Latham and Mr. Erickson, President of the Boston Reserve Bank, during which the reasons why the Board disapproved the application were explained to them and Mr. Latham was advised that the Board would be glad to review the matter with the management of the member bank upon request. Subsequently, he said, the member bank requested an opportunity to discuss the matter and arrangements were made for its president, Mr. William M. Cahill, to come to the Board's offices for a discussion this afternoon.

In this connection, Governor Robertson referred to the procedure for informal clearance of branch applications received by the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation which he said had resulted in a good working relationship between the three agencies and sometimes put a different light on recommendations submitted by the Federal Reserve Banks or the field offices of the other two agencies.

Governor Vardaman inquired whether steps had been taken to explain to the Reserve Banks how this interagency clearance operated, and Governor Robertson responded that the procedure had been outlined at System examiners' conferences and that representatives of the Division of Examinations planned to review the procedure carefully during their visits to the Federal Reserve Banks this year. He added that, although no effort was made to have the Reserve Banks change
recommendations with which the Division of Examinations disagreed, steps were taken to explain informally in each instance the reasons underlying the Board's position so that the Federal Reserve Bank would understand that the Board was not acting arbitrarily or capriciously.

There was also a discussion of the procedure followed when a Reserve Bank takes an unfavorable position with respect to an application by a member bank and it was brought out that if the State member bank does not wish to withdraw the application in the face of the Reserve Bank's position, the application is forwarded to the Board for consideration along with the Reserve Bank's unfavorable recommendation.

Messrs. Sloan and Solomon then withdrew from the meeting.

Pursuant to the understanding at the meeting on October 9, 1953, there was presented a draft of letter for the signature of Chairman Martin to the Honorable Marion B. Folsom, Under Secretary of the Treasury, reading as follows:

Following receipt of your confidential memorandum of September 16 I have discussed with the Board the two questions on which you requested our opinions in connection with a possible reduction in the rate of the capital gains tax from the present 25 per cent to 15 per cent.

Specifically, you asked for our "appraisal of the effects of a lower rate of tax over a period of years in permitting greater fluidity of investment funds", and secondly you wished to know "whether there might be any immediate adverse effects on security markets or otherwise arising from extensive liquidation of assets which until now have been frozen by the existing rate of tax on capital gains."
With regard to the first question, it is our opinion that a rate reduction would tend to increase the fluidity of investment funds somewhat over a period of years but to what extent would be very difficult to determine.

With regard to the second question, it is our view that disruptive effects in the Government securities markets would not be likely as a result of such a rate reduction.

With the thought that it might be of some interest to you, I am enclosing a table prepared by our staff to indicate some of the possibilities in the Government securities market for investment switches under present tax rates and under an assumed reduction to a 15 per cent rate.

Approved unanimously.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 9, 1953, were approved unanimously.

Letter to the Board of Directors, Portland Trust Bank, Portland, Oregon, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment and operation of a branch in the vicinity of Southeast Stark Street and 122nd Avenue, Multnomah County, Oregon, by the Portland Trust Bank, Portland, Oregon, provided the branch is established within six months from the date of this letter.

Approved unanimously, for transmittal through the Federal Reserve Bank of San Francisco.

Letter for the signature of the Chairman to the Honorable John J. Williams, United States Senate, Washington, D.C., reading as follows:
I am writing in response to your letter of September 29, 1953, in which you request material concerning the retirement systems covering employees of the Board of Governors. Attached is a brief summary which will, I think, provide the desired information.

I trust that this information will be sufficient for your purposes. If not, we shall be happy to provide whatever further data you may need. With the thought that it may be of use to you in this study, I am enclosing the most recent revision of the rules and regulations of the Retirement System of the Federal Reserve Banks.

Approved unanimously.

Secretary