

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 18, 1954. The Board met in the Board Room at 10:00 a.m.

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

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. Vest, General Counsel
Mr. Young, Director, Division of Research
and Statistics

Governor Mills said that the National Bureau of Economic Research had received a grant from the Rockefeller Foundation to investigate the Russian economy, particularly Russian statistics and reports, with a view to having the American economic and business fraternity better informed, that a part of the study involved evaluation of the Russian index of industrial production, and that the National Bureau of Economic Research, desiring expert advice in this field, had inquired through Mr. Young whether the Board would be willing to make the services of Mr. Arthur L. Broida, Economist in the Business Conditions Section, available on a part-time basis over an indefinite period so that Mr. Broida might serve as a consultant on this project, which might involve some trips to New York. The Bureau would be willing to pay his expenses in connection with such trips and compensate him for time spent on the project outside of his regular working hours for the Board.

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At Governor Mills' request, Mr. Young commented further on the inquiry made by the Bureau, stating that the matter had not yet been taken up with Mr. Broida since it was felt that it would be desirable to have an indication of the Board's views before the details were discussed with Mr. Broida or with the Bureau. He expressed the opinion that satisfactory arrangements could be made to release Mr. Broida from his regular duties to the extent necessary, and that both Mr. Broida and the Board would derive benefits from the assignment.

Following a discussion, Governor Mills recommended that it be ascertained whether Mr. Broida was willing to undertake the assignment and, if so, that arrangements for releasing Mr. Broida from his regular duties to the extent necessary and other matters incident to the assignment be worked out to the satisfaction of Mr. Young.

Governor Mills' recommendation was approved unanimously, with the understanding that Mr. Broida would receive no compensation from the National Bureau of Economic Research and that travel and other expenses which he might incur in connection with this work would be paid by the Board.

Chairman Martin stated that pursuant to the understanding at the meeting yesterday, he had discussed with Mr. Sproul, President of the Federal Reserve Bank of New York, the suggestions which Mr. Sproul had made with respect to the credit policy section of the Board's 1953 Annual Report and the objection that Mr. Sproul had interposed with respect to the

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entry in the policy record of the Federal Open Market Committee covering the meeting of the Committee on March 4-5, 1953. While the revised draft of the text of the Annual Report which was presented at the meeting yesterday did not meet the criticisms originally made by Mr. Sproul to Mr. Sproul's satisfaction, Chairman Martin suggested that the revised draft be approved since he felt that it was preferable to the previous draft, constituted a satisfactory statement from the Board's viewpoint, and took into account as well as could be done the points raised by Mr. Sproul. With regard to the policy record of the Federal Open Market Committee, Chairman Martin stated that Mr. Sproul would be satisfied to have incorporated in the record, either in the form of a footnote or a parenthetical statement, a comment along the lines suggested at yesterday's meeting which would indicate that although Mr. Sproul had voted for the actions in question he did not regard the statement of the reasons therefor as adequately presenting his feelings. Chairman Martin also said that inasmuch as Mr. Erickson, President of the Federal Reserve Bank of Boston had voted with President Sproul on several actions taken by the Federal Open Market Committee in 1953, he had discussed the matter with Mr. Erickson, who was satisfied with the policy record as drafted and did not wish to have any special comment inserted concerning his votes.

Following a discussion, the revised draft of the credit policy section of the text of the 1953

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Annual Report, as submitted and discussed at yesterday's meeting of the Board, was approved unanimously. It was also agreed unanimously that there should be inserted at the appropriate place in the policy record of the Federal Open Market Committee for March 4-5, 1953, a statement in parentheses indicating that although Mr. Sproul voted for certain actions, he did not agree with the statement of reasons for the actions given in the paragraph in question.

Mr. Thomas stated that a representative of the Provident Trust Company of Philadelphia, Pennsylvania, who visited the Board's offices recently had inquired whether he (Mr. Thomas) would be willing to participate in the program of a meeting which that bank was arranging for its correspondent banks in the near future. The matter was discussed and it was the view of the members of the Board that, except in special circumstances, it would be preferable for members of the Board's staff not to accept such invitations since if they participated in a correspondent bank meeting arranged by any particular member bank, it would be difficult to refuse similar requests from other institutions. It was understood, therefore, that Mr. Thomas would decline the invitation to participate in the meeting being arranged by the Provident Trust Company.

Messrs. Thurston, Riefler, Thomas, and Young then withdrew from the meeting and Messrs. Sloan, Director, Division of Examinations, Hexter and Chase, Assistant General Counsel, and W. D. Smith, Federal Reserve Examiner, Division of Examinations, entered the room.

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At the meeting of the Federal Advisory Council with the Board on February 16, the Council raised the question whether the Board would authorize the individual Federal Reserve Banks to increase from \$350 to \$450 the annual payment made by each Federal Reserve Bank to cover the expenses of the office of the Secretary of the Council.

Following a discussion of the matter, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks in the following form, with the understanding that a copy of the letter would be sent to Mr. Prochnow, Secretary of the Federal Advisory Council, for his information:

The Federal Advisory Council, at its meeting with the Board on February 16, 1954, raised the question whether the Board would authorize the individual Federal Reserve Banks to increase from \$350 to \$450 the annual payment made by each Bank to cover the expenses of the Secretary's Office of the Federal Advisory Council. The Board informed the Council that it would give consideration to this suggestion.

In March 1936 the Board authorized all Federal Reserve Banks, until further notice, to pay not to exceed \$350 annually toward expenses of the Secretary's Office of the Council. None of the Reserve Banks has requested authority to increase the payment above this amount. However, subject to such action as may be taken by the directors of your Bank, the Board authorizes your Bank, until further notice, to pay not to exceed \$450 annually toward the expenses of the Secretary's Office of the Federal Advisory Council.

This authorization replaces that referred to in the last paragraph of the Board's letter of September 13, 1949, S-1122. It will be appreciated if you will inform the Board of any action taken by your Bank under the authorization contained in this letter.

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Governor Mills presented for the consideration of the Board certain developments with regard to The Continental Bank and Trust Company, Salt Lake City, Utah, which he had discussed with members of the Board's staff and Vice President Millard and Chief Examiner Galvin, of the Federal Reserve Bank of San Francisco, when Messrs. Millard and Galvin were in Washington last week attending the System Examiners' Conference. The Continental Bank and Trust Company was admitted to membership in the Federal Reserve System as a State member bank effective February 1, 1952, upon conversion from a national bank charter.

The points brought out by Governor Mills, and amplified at his request by Messrs. Sloan and Vest and other members of the staff, showed that the bank was admitted to membership as a State bank subject to a condition of membership which required that within two years after date of admission the indebtedness to the bank of Walter E. Cosgriff, Enid B. Cosgriff, Mildred D. Cosgriff, and Marian S. Sturdevant must be fully paid. In addition, the Board, in a letter to the bank concerning its admission to membership, expressed the view that the capitalization of the bank was low in relation to its total assets, particularly in relation to the amount of its risk assets. The Board emphasized that its action in approving the application for membership was not to be construed as approving in any way the bank's capital position or as indicating that the Board might not thereafter insist on an increase in the bank's capital or a correction of any undesirable condition.

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It was stated at this meeting that an examination of the member bank and its affiliated banks made in May, 1953, disclosed that the condition of membership regarding the family indebtedness had not been fully complied with. Not having heard further from the bank, Mr. Millard wrote to President Cosgriff on February 5, 1954, inquiring whether the indebtedness in question had been removed from the bank, but at the end of last week no reply had been received from Mr. Cosgriff. In addition, the May 1953 examination disclosed that the bank continued to be undercapitalized, it being felt by the Federal Reserve Bank of San Francisco and the Board's staff, from a careful analysis based upon the report of examination, that at least \$1,000,000 of additional capital should be supplied. The Federal Reserve Bank had made representations to the bank that its capital should be increased, but no action had been taken by the bank, and it was felt by the Reserve Bank and the Board's staff, based on contacts with the management of the member bank, that any requirement for an increase in capital would be contested.

It was Governor Mills' recommendation that the Federal Reserve Bank of San Francisco arrange to start an examination of the member bank at the earliest feasible date, with the thought that it could be ascertained whether the condition of membership requiring liquidation of the family indebtedness had been met and that in the course of the examination the examiners could take up and discuss fully with Mr. Cosgriff and the bank's board of directors the matter of the institution's

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undercapitalized position. The report of examination would be completed as expeditiously as possible so that it might be used as a basis for consideration by the Board and the Federal Reserve Bank of San Francisco in deciding whether the member bank should be requested to increase its capital and, if it failed to do so, what steps should be taken.

During a discussion of the matter, it was pointed out that the examiners for the Federal Reserve Bank of San Francisco could ascertain within a short time after the start of the examination whether the condition of membership respecting the liquidation of the family indebtedness had been complied with and that a special report on this matter could be made to the Board. In the event it developed that the member bank had failed to comply with the condition of membership, steps might be taken looking toward the expulsion of the bank from membership in the System. It was further suggested that an effort should be made by the Federal Reserve Bank of San Francisco to have the Utah State banking authorities join in the examination of the member bank.

At the conclusion of the discussion, the course of action recommended above was approved unanimously.

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

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 17, 1954, were approved unanimously.

Letter to Mr. Strathy, Secretary, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the appointments of Messrs. J. G. Holtzclaw, Overton D. Dennis, Ross Puette, Walker D. Stuart, and John L. Whitehurst as members of the Industrial Advisory Committee for the Fifth 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 February 11, 1954.

Approved unanimously.

Letter to Mr. Brown, Assistant Secretary, Federal Reserve Bank of Atlanta, reading as follows:

The Board of Governors approves the appointments of Messrs. John E. Sanford, I. C. Milner, George Winship, Luther H. Randall and Shannon M. Gable as members of the Industrial Advisory Committee for the Sixth 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 telegram of February 12, 1954.

Approved unanimously.

Letter to Mr. Meyer, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of January 28, 1954, requesting approval for the payment of above-maximum salaries to certain maintenance employees.

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The Board of Governors approves the procedure whereby the payment of salaries to window washers, elevator operators and starters, assistant starters, janitors, paper balers, metal polishers, scrubbing machine operators, engineers, firemen, relief engineers, and relief and extra firemen will be considered each time a contract is negotiated between employers and employees in the "Loop" area rather than on an individual employee basis.

It is contemplated that, under this procedure, any new contract will be forwarded to the Board for review and that after Board approval the Bank would pay the salaries stipulated in the contract to individual employees without further reference to the Board of Governors.

Approved unanimously.

Telegram to Mr. Clarence E. Ayres, Professor of Economics, University of Texas, Austin, Texas, prepared pursuant to action taken by the Board on February 16, 1954, and reading as follows:

Board of Governors of Federal Reserve System has appointed you a director of San Antonio Branch of Federal Reserve Bank of Dallas for unexpired portion of term ending December 31, 1956, and will be pleased to have acceptance by collect telegram.

It is understood you are not a director of a bank and do not hold public or political office. Should situation in these respects change during the tenure of your appointment, will be appreciated if you will advise Chairman Federal Reserve Bank Dallas.

Approved unanimously.

Letter to Mr. Gentry, First Vice President, Federal Reserve Bank of Dallas, reading as follows:

The Board of Governors approves the appointments of Messrs. Charles R. Moore, Lawrence S. Pollock, Ira T. Moore, Jake L. Hamon, and William P. Bomar as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year

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each beginning March 1, 1954, in accordance with the action taken by the Board of Directors as reported in your letter of February 11, 1954.

Approved unanimously.

Letter to the Board of Directors, The County Trust Company, White Plains, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York the Board of Governors approves the establishment of a branch by The County Trust Company at 208 Westchester Avenue, White Plains, New York, provided the branch is established within six months from the date of this letter.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to Mr. Van Zante's letter of February 9, 1954, regarding request of the Union Bank of Michigan, Grand Rapids, Michigan, for permission to move one of its branches from the corner of Division and Hall Streets to 20 Hall Street, S. E., almost directly across the street, and to move its East Town office (in your letter referred to as its East End office) from 1456 Lake Drive, S. E., to 1435 Wealthy Street, about one-half block away. Both branches are located in Grand Rapids, Michigan.

We concur in your view that the proposals constitute mere relocations of existing branches in their immediate neighborhoods without affecting the nature of their business or the customers served, and, therefore, the approval of the Board of Governors is not necessary.

Approved unanimously.

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

As you know, the Board's rule with respect to the classification of central reserve and reserve cities which was adopted on December 19, 1947, provides for a triennial designation of reserve cities. Acting pursuant to that rule, the Board has taken action, to become effective March 1, 1954, for the continuance of the reserve city classification of certain existing reserve cities and the termination of the reserve city classification of certain other existing reserve cities. A copy of the Board's action, which will shortly be published in the Federal Register, is enclosed herewith.

It will be appreciated if you will bring this action of the Board to the attention of member banks in your District.

The effect of this action is to continue the reserve city designations of all presently existing reserve cities except Dubuque, Iowa, Lincoln, Nebraska, and St. Joseph, Missouri, which will cease to be reserve cities on March 1, 1954.

Approved unanimously, together with the following statement:

Classification of Reserve Cities

Acting in accordance with the rule regarding classification of central reserve and reserve cities which was adopted by the Board on December 19, 1947, and became effective March 1, 1948 (hereafter referred to as the Board's rule), and pursuant to authority conferred upon it by section 11(e) of the Federal Reserve Act and other provisions of that Act, the Board of Governors has taken the following actions for the continuance of the classification of certain cities as reserve cities and the termination of the reserve city designations of certain other cities, all such actions to become effective March 1, 1954:

(1) The City of Washington, D. C., and every city except New York and Chicago in which there is situated a Federal Reserve Bank or a branch of a Federal Reserve Bank are hereby continued as reserve cities.

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(2) The following cities fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending on June 30, 1953, and, therefore, such cities, in addition to the reserve cities classified as such under paragraph (1) above, are hereby continued as reserve cities:

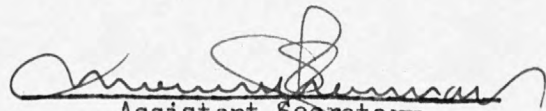
Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; National City (National Stock Yards), Illinois; St. Paul, Minnesota; Tulsa, Oklahoma; Wichita, Kansas; and Fort Worth, Texas.

(3) The following cities do not fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending June 30, 1953, but a written request for the continuance of each such city as a reserve city was received by the Federal Reserve Bank of the District in which the city is located on or before February 15, 1954, from every member bank having its head office or a branch in such city (exclusive of any member bank in an outlying district in such city permitted by the Board to maintain reduced reserves), together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request; and, accordingly, in accordance with paragraph (3) of subsection (b) of the Board's rule, the following cities, in addition to the reserve cities classified as such under paragraphs (1) and (2) above, are hereby continued as reserve cities:

Toledo, Ohio; Cedar Rapids, Iowa; Sioux City, Iowa; Kansas City, Kansas; Pueblo, Colorado; and Topeka, Kansas.

(4) The following cities do not fall within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending June 30, 1953, and written requests for their continuance as reserve cities were not received from all member banks in such cities; and, accordingly, the designation of such cities as reserve cities is hereby terminated:

Dubuque, Iowa; Lincoln, Nebraska; and St. Joseph, Missouri.


Assistant Secretary