Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 13, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
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. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Pursuant to the understanding at the meeting on April 7, 1954, there had been sent to the members of the Board copies of a draft of letter for the signature of the Chairman to the Honorable H. Earl Cook, Chairman of the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

The Board has reviewed the attached report of a study of compensation paid officers and employees, of insured commercial banks, prepared by a joint committee representing the three Federal bank supervisory agencies, and concurs in the suggestion that it be submitted to Congressman Wright Patman over your signature, in a letter reading substantially as follows:

"I refer to your letters of December 14, 1953, addressed to the three Federal bank supervisory agencies, and to other communications regarding compensation received by officers of insured commercial banks. In accordance with their expressed assurances, the Comptroller of the Currency, the Board of Governors of the

"Federal Reserve System, and the Federal Deposit Insurance Corporation have completed a general study of compensation paid to bank officers and employees, including data contained in the reports of examination made during the years 1947 and 1953 of the 600 largest insured commercial banks.

"This information is summarized in the attached report which is submitted in behalf of the three agencies."

The Board also feels that a copy of the study and of your letter to Congressman Patman should be sent to the Honorable Jesse P. Wolcott, Chairman of the Committee on Banking and Currency of the House of Representatives, for his information, and understands that you plan to follow this procedure.

Along with the draft there had been sent to the members of the Board copies of the report referred to therein.

The letter was approved unanimously.

Governor Robertson referred to the approval given at the meeting on October 14, 1952, to an arrangement under which senior personnel of the bank examination departments of the Federal Reserve banks would be assigned in rotation to duty with the Board's Division of Examinations for periods of six months, one at a time from each Federal Reserve Bank with two men serving concurrently, in order to effect closer integration of the System's bank supervision and examination procedures with a view to achieving maximum effectiveness and benefit to member banks. He said that the first two men so assigned served the full period, but that even with so long a period of service it was found that the men could not contribute materially to the handling of the work in the Division of Examinations. In addition, their assignment for such a period imposed a severe handicap on the Reserve Bank examination department from which they were assigned. For these reasons, the next four men assigned served for periods of three months each.

Governor Robertson expressed the belief that the Reserve Banks had benefited through having their personnel acquire an understanding of the operating procedures in the Division of Examinations and through having their personnel learn something of the examining and supervising practices of other Reserve Banks. He felt, however, that a period of one month was sufficient for these purposes. Also, since the present concept involved principally benefit to the Reserve Banks rather than the Board, he felt that it was no longer incumbent upon the Board to offer to absorb the expenses of the men assigned.

Governor Robertson proposed, therefore, that in the absence of objection, the Division of Examinations would continue to invite the Reserve Banks to send senior examining personnel, particularly those concerned largely with supervision, to Washington from time to time on a purely voluntary basis, and at the Banks' own expense, to observe and participate in the operations of the Division of Examinations for periods of approximately one month.

The procedure suggested by Governor Robertson was approved unanimously, and he was authorized to make the necessary arrangements.

Reference was made to a telegram dated April 8, 1954, from Mr. Dawes, Vice President and Secretary of the Federal Reserve Bank of Chicago, stating that the Bank's board of directors had voted that day to establish a rate of 1-1/2 rather than 1-3/4 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act.

Governor Szymczak stated that Mr. Young, President of the Chicago Bank, called him on the telephone on April 8, prior to the meeting of the Bank's board of directors, and said that he was going to bring up the matter of the Bank's discount rate, which had been the subject of discussion by the directors on previous occasions. Governor Szymczak said that in response to an inquiry by President Young as to the feeling of the Board of Governors on the matter, he told Mr. Young that he thought a decision whether to act was up to the Chicago directors, that there would not be a quorum of the Board of Governors available until this week, and that, if the Chicago directors acted, the Board of Governors would take the matter under consideration when a quorum was available. Governor Szymczak went on to say that he discussed the matter further with President Young and some of the Chicago directors while he was in that city the past week end, and that he gained the impression that the directors were thinking of a reduction in the discount rate mostly in terms of its being a first step toward a reduction of reserve requirements, including a change in the requirements against member banks in New York and Chicago. He added that he understood the vote of the Chicago directors to reduce the discount rate was unanimous.

There followed statements by members of the Board and the staff regarding the implications of a differential in the discount rate as between Federal Reserve banks, during which reference was made to the effects of a rate differential under varying economic conditions, reasons for the lack of rate uniformity at times in the past, and reasons why uniformity had prevailed in recent years. It appeared to be the consensus that except at certain times, for example when Federal Reserve policy was directed toward combating inflationary tendencies, a lack of uniformity in the discount rate would present no policy or operating problems of serious consequence. However, it was felt generally that a reduction of the rate by one Reserve Bank at the present time was likely to be followed by similar action on the part of other Reserve Banks within a short time thereafter.

There was also a discussion of the question whether a reduction in the discount rate should precede or follow a reduction in member bank reserve requirements under prevailing circumstances, and the members of the staff who were called upon for expressions of opinion indicated that they had no strong feeling as to the order in which such actions should be taken. They were somewhat inclined, however, to favor a lowering of the discount rate first, one thought being that if it should become desirable to tighten the credit market at any time, the rate would then be at a point from which it could be raised without difficulty.

Further discussion concerned the reasons which might be given for lowering the discount rate at this time. The principal reasons advanced for such action were that it would bring the discount rate more nearly in line with short-term money market rates and that it would reaffirm the System's current policy of active monetary ease and ready availability of credit.

It was then agreed that the Board should meet again this afternoon, following the meeting of the executive committee of the Federal Open Market Committee, for further consideration of the action taken by the directors of the Chicago Reserve Bank.

The meeting then recessed and reconvened at 3:00 p.m. in the Board Room with the same attendance as at the morning session except that Mr. Molony, Special Assistant to the Board, was present and Mr. Youngdahl was not present.

Chairman Martin stated that Mr. Riefler had received a letter dated April 12, 1954, from Miss Mildred Adams, Research Director for the Committee on the History of the Federal Reserve System, stating that in connection with a call at the home of the late Dr. Adolph C. Miller, member of the Board from 1914 to 1936, she had been informed that the Miller estate had been left to the University of California and that the Regents of the University had passed a resolution authorizing delivery of a small collection of papers in Dr. Miller's estate to the Federal Reserve System. Chairman Martin explained the circumstances under which Miss Adams had accepted the papers from Mrs. Wesley C. Mitchell, a sister of Mrs. Miller, who is an invalid and unable to manage her own affairs, after which she had taken them to the Brookings Institution and placed them in her office until she could communicate with the Board.

Chairman Martin stated that although the Board had not yet received formal advice that the Regents of the University of California had authorized delivery of the papers to the Board of Governors, if such advice were received it would seem to him appropriate to receive the papers and to have them sorted and classified by members of the Board's staff, after which they would be available for the use of the Committee on the History of the Federal Reserve System in the same manner as other records to which that Committee had been given access by the action of the Board at a meeting on January 4, 1954.

Following a brief discussion, the procedure suggested by Chairman Martin was approved unanimously.

There was a brief additional discussion of the action of the directors of the Federal Reserve Bank of Chicago on Thursday, April 8, 1954, establishing a rate of 1-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act. It was the view of the members of the Board that there had been nothing in the discussion at today's meeting of the executive committee of the Federal Open Market Committee which would indicate that the Board should not approve the action of the Chicago directors.

Accordingly, unanimous approval was given to a telegram to Mr. Dawes, Vice President and Secretary of the Federal Reserve Bank of Chicago, reading as follows, with the understanding that advice would be sent by telegram to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of Federal Reserve Bank branches, and that a notice would be sent to the Federal Register:

Reurtel April 8. Board approves, effective April 14, 1954, rate of 1-1/2 per cent on discounts for and advances to member banks under sections 13 and 13a. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram of April 8. Board's announcement will be handed to press at 4:30 p.m. Eastern Standard Time today for immediate release.

The press statement referred to in the telegram to the Federal Reserve Bank of Chicago was approved unanimously by the Board in the following form:

The directors of the Federal Reserve Bank of Chicago have established a discount rate at that Bank of 1-1/2 per cent, and the Board of Governors has approved this action, effective Wednesday, April 14, 1954. The rate previously in effect at the Bank was 1-3/4 per cent.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 12, 1954, were approved unanimously.

Memorandum dated April 5, 1954, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Francis D. Dargo as Assistant Federal Reserve Examiner in that Division on a temporary indefinite basis, with basic salary at the rate of $3,410 per annum, and with official headquarters in Washington, D. C., effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to the Board of Directors, Ridgefield State Bank, Ridgefield, Washington, reading as follows:

> Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors hereby gives its written consent, as required under Section 18(c) of the Federal Deposit Insurance Act, to the merger of the Ridgefield State Bank and the State Bank of Battle Ground, Washington, under a new title and location at Hazel Dell, Washington, and approves the operation by the surviving bank of branches at Battle Ground and Ridgefield, Washington, provided (a) the merger is effected substantially in accordance with the plan submitted; (b) formal approval of the appropriate State authorities is obtained; and (c) the branches are established within six months from the date of this letter.

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

Telegram to the Presidents of all Federal Reserve Banks requesting that a call be made on behalf of the Board on all State member banks on April 19, 1954, for reports of condition as of the close of business on April 15, 1954, on forms furnished with the Board's letter of April 12, 1954.

Approved unanimously.

Assistant Secretary