Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 10, 1954. 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. Leonard, Director, Division of Bank Operations
Mr. Johnson, Controller

Chairman Martin suggested that a luncheon be given in the Board's dining rooms on Tuesday, September 21, 1954, in honor of the new members of the Board, Messrs. Miller and Balderston, and that those invited to the luncheon include the Presidents of the Federal Reserve Banks, the members of the Federal Advisory Council, representatives of the Department of the Treasury, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, and appropriate members of the Board's staff.

Chairman Martin's suggestion was approved unanimously.

There was presented a request from Mr. Riefler, Assistant to the Chairman, for authority to travel to Chicago, Illinois, September 13-15, 1954, to participate in the Institute on Central Banking Techniques.

Approved unanimously.

Prior to this meeting there had been circulated to the members of the Board a memorandum from Mr. Johnson dated August 24, 1954, recommending, pursuant to the request contained in an attached memorandum from Mr. Leonard, dated August 20, 1954, approval of the expending of approximately $6,500 during 1954 for the services of Mr. Persina, Consulting Architect to the Board. The budget of the Division of Bank Operations for 1954 included provision of $3,500 for the services of the consulting architect.

At the request of the Board, Mr. Leonard made a statement in which he said that the number of Federal Reserve Bank and branch building projects on which Mr. Persina's services would be required had been underestimated at the time the 1954 budget was prepared, it having been contemplated that ten such matters would come before the Board in 1954 whereas Mr. Persina's services already had been needed on twelve projects, with approximately eight more in prospect before the end of the year.

Governor Vardaman, who had requested that the matter be discussed at a meeting of the Board, stated that since he considered the budget a rather obligatory framework for expenditures, he felt it should be made clear to the division heads that they should avoid underestimating the budget for various purposes and then have it develop during the course of the year that additional expenses would have to be incurred. He suggested that the thought be conveyed to the division heads, in preparing the 1955 budget, that in case of doubt they should lean on the conservative side to avoid deficiencies, so that the true picture of prospective expenditures might be before the Board when the budget was being considered.

At the request of Chairman Martin, Mr. Johnson made a brief statement in which he referred to the mid-year review of performance under the Board's budget and indicated that the review reflected a close relationship between the budgeted figures and actual expenditures for the first half of 1954. It was understood that a further discussion of the mid-year review of budget performance would be had by the Board at another meeting in the near future.

> Thereupon, the recommendation contained in Mr. Johnson's memorandum of August 24, 1954, was approved unanimously, it being understood that the points made by Governor Vardaman with respect to the estimating of expenditures would be taken into consideration in instructing the staff regarding the preparation of the Board's budget for 1955.

Mr. Johnson then withdrew from the meeting and Mr. Vest, General Counsel, entered the room.

Pursuant to the understanding at the meeting on August 16, 1954, there was a further discussion of the request contained in two letters dated August 12, 1954, from Mr. Young, President of the Federal Reserve Bank of Chicago, that the Bank be authorized to exercise options which had been obtained on two of the three pieces of property to the west of the Chicago head office building and in the same block. One of the options, providing for the purchase of property at 180 West Jackson Street for $562,000, was to expire September 15, 1954, while the other option, to purchase the United States Fidelity and Guaranty Company property for

$1,800,000, was to expire October 30, 1954.

After summarizing the views which he had expressed at the meeting on August 16, Governor Vardaman stated that he would be willing to authorize the Chicago Reserve Bank to purchase the two properties only if it was clearly understood that the Bank could proceed no further pending a decision with respect to the establishment of additional offices in the Seventh Federal Reserve District.

Governor Szymczak stated that in accordance with the Board's request he talked to Mr. Prall, Deputy Chairman of the Federal Reserve Bank of Chicago, during a recent visit to that city, and that he also discussed the branch question with President Young and later, on the telephone, with Mr. Coleman, Chairman of the Chicago Bank. He said that in the conversations with Messrs. Prall and Young, he indicated to them that although the Board in correspondence had dealt separately with the Chicago head office building program and the branch problem, the Board nevertheless expected the Chicago directors and officers to pursue the matter of branches actively and wished to hear as soon as possible what the Bank would propose regarding additional branches. Governor Szymczak also said that he referred to the Board's responsibility for the establishment of branches, saying that in view of this responsibility the Board desired certain information from the Bank and that although the Board had authority to require the establishment of branches it would not wish to do so unless the problem could not be worked out with the Reserve Bank. Governor Szymczak went on to say that Mr. Young mentioned the additional expense which the operation of branches would involve and that he replied to the effect that the matter should be considered from the standpoint of the public interest and the various services which the additional branches would provide to the areas served. With respect to statements by President Young to the effect that the establishment of offices in Indianapolis, Indiana, and Milwaukee, Wisconsin, might well require an adjustment of boundaries within the District, Governor Szymczak said he suggested to Mr. Young that the Bank approach the matter on the theory that the branches were going to be established and advise the Board as to the way in which that could be done so that the Board might have full information before it.

After further discussion, during which it was suggested that the Reserve Bank be authorized to exercise only the option which was to expire September 15, it was proposed as an alternative that the Bank be permitted to purchase both of the properties but that it be informed at the same time that the Board anticipated prompt consideration of the branch problem. It was pointed out in this connection that authorizing the Reserve Bank to purchase the two properties would not permit the Bank to proceed with construction of buildings at those locations.

The alternative procedure having been agreed upon, unanimous approval was given to a telegram to President Young in the following form:

Reurlet August 12 advising that Board of Directors had authorized subject to approval of Board of Governors, purchase of U.S.F.&G. property and 180 West Jackson property at option prices of $1,800,000 and $562,000 respectively. Board approves such purchases.

This action by the Board of Governors does not mean that question of additional branches for the District has been dropped or deferred. In letter dated April 2, Board stated it was not in full agreement with conclusion expressed in your letter of March 12 that there are no persuasive reasons to establish new branches in Seventh District at this time. Same letter requested that directors give, at early date, further consideration to question of establishing additional branches.

It is now six months since that request, and Board trusts that any studies necessary for such consideration will be pressed to rapid conclusion and that mutually satisfactory determination as to basic questions involved in establishment of additional branches may be reached by Bank and Board without delay.

Copy of this telegram being forwarded to Chairman Coleman.

At this point Messrs. Marget, Director, and Dembitz, Assistant Director, Division of International Finance, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Reference was made to a memorandum from Mr. Marget dated September 3, 1954, regarding a request for technical assistance in improving the accounting system of the Central Bank of Bolivia. Attached to the memorandum, which had been circulated to the members of the Board, was a letter dated September 1, 1954, from Mr. Harold E. Stassen, Director of the Foreign Operations Administration, to Chairman Martin which stated that the Government of Bolivia had asked the United States Government whether a qualified person could proceed to Bolivia for a period estimated at from three to four months to accomplish the work in question. Mr. Marget's memorandum recommended that the Board authorize the staff to ascertain whether a suitable person could be found within the Federal Reserve System who would be available for such a mission.

Governor Szymczak recalled that on the basis of an informal inquiry from the Foreign Operations Administration this matter was discussed at the meeting on August 3, 1954, at which time it was the view of the Board that it might be difficult to comply with the request and that it would seem desirable to discourage the Foreign Operations Administration from making a formal request. He pointed out that in view of the altitude and other unfavorable working conditions it might be hard to locate a suitable person to undertake the assignment and that the work was of such a nature that it would seem possible to locate public accountants who would be well qualified to perform the task.

There was a further discussion of the matter during which Governor Robertson pointed out that this appeared to be a request which the State Department felt worthy of consideration from the standpoint of United States foreign policy. While he agreed that the job apparently was one which public accountants could handle, he suggested that in all the circumstances it might be well for the Federal Reserve System to cooperate if some qualified person in the System wished to undertake the assignment and the situation was such that he could be spared. Governor Robertson also mentioned that in many cases foreign governments and central banks had received assistance in the economic field and that there were a number of other fields where the System had persons who could provide needed services.

Chairman Martin stated that he concurred generally in the views expressed by Governor Robertson. He went on to say that he thought it was a desirable thing for other central banks to come to the Federal Reserve System for assistance and that it would seem worth while to ascertain whether any of the qualified persons within the System would be willing to undertake the assignment in Bolivia.

> At the conclusion of the discussion, the staff was authorized to ascertain whether a qualified person would be available to fill the request for assistance which had been made by the Central Bank of Bolivia.

Messrs. Marget and Dembitz then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a memorandum dated August 30, 1954, from Mr. Hackley, Assistant General Counsel, discussing an attached letter dated August 24, 1954, from Mr. Leach, President of the Federal Reserve Bank of Richmond, which submitted to the Board the request of Mr. Theodore E. Fletcher, Sr., a Board-appointed director of the Baltimore Branch, for a formal ruling on the question whether his service as a director of a newly-organized Federal savings and loan association would affect his eligibility to serve as a Federal Reserve Bank branch director. After reviewing the matter from the standpoint of the position taken by the Board with respect to services of a Federal Reserve Bank Class B or C director as a director of a savings and loan association, Mr. Hackley's memorandum pointed out that in the case of a branch director the question was one of policy rather than of law. Governor Mills had indicated when the memorandum was in circulation that he felt that it might be reasonable, in view of the special circumstances of this case, to permit Mr. Fletcher to serve as a director of the savings and loan association for the first six months of its operations or to July 1, 1955, whichever date was the earlier.

At the request of the Board, Mr. Vest made a statement in which he reviewed the points covered in Mr. Hackley's memorandum and pointed out that the question whether a savings and loan association should be considered in the same category as a bank for this particular purpose was one for the Board to decide on policy grounds. In response to a question, Mr. Vest said that to his knowledge the Board had not had presented to it up to this time a case involving a branch director and that there might be some merit in handling individual cases according to the considerations involved.

During a discussion which ensued, Governor Robertson stated that although he was reluctant to follow an inflexible course, he felt that to allow Mr. Fletcher to serve in both capacities would represent a deviation from the general policy which the Board had established in the past. He referred to the increasing similarity in the operations of banks and savings and loan associations and indicated that he would not want to resolve this question on the basis that a savings and loan association was not a bank. Although in his opinion it would be preferable as a matter of policy for the Board to tell Mr. Fletcher that he must make a choice between the two positions, Governor Robertson said that he would not object if the Board should conclude to allow Mr. Fletcher to serve temporarily as a director of the savings and loan association.

Following further discussion, Chairman Martin suggested that the Board advise Mr. Fletcher of its view that as a general policy Federal

Reserve Bank branch directors appointed by the Board should not serve at the same time as directors of banks or savings and loan associations but that in the circumstances of his case the Board would not object to his serving as a Baltimore Branch director and as a director of the newly-organized savings and loan association until January 1, 1955, at which time he would be expected to make a choice.

At the conclusion of the discussion, it was agreed unanimously that the Secretary would advise President Leach of the Board's views, as expressed by Chairman Martin, with the understanding that an invitation would be extended to Mr. Fletcher, through President Leach, to come to Washington and discuss the matter with the Board if he desired to do so.

At this point Mr. Hexter, Assistant General Counsel, entered the room.

There had been circulated to the members of the Board prior to this meeting a draft of letter to the Presidents of all Federal Reserve Banks revising the Board's letter S-1488 of February 26, 1953, with respect to support by the Federal Reserve Banks of activities of the American Institute of Banking.

Following a statement by Mr. Carpenter of the changes between the outstanding letter and the proposed letter, Governor Robertson, who had requested that the matter be discussed at a meeting of the Board, expressed the view that the Reserve Banks should be encouraged to use the facilities of the American Institute of Banking for training employees and that all limitations should be removed on the extent to which Reserve Bank funds might be used for educational or training purposes through the Institute. He also said he did not think it wise to request that the Reserve Banks gear their expenditures in any way to the support given to the American Institute of Banking by commercial banks in their respective communities.

Following a discussion, it was agreed unanimously that the letter to the Federal Reserve Banks should be redrafted to take into account the views expressed by Governor Robertson.

Mr. Sprecher then withdrew from the meeting.

Governor Robertson said that he would like to bring to the Board's attention, so that it might be aware of developments, the fact that representatives of certain commercial banks had been in touch with him and members of the Board's staff for several months to present informally a proposal that the law be amended so as to permit member banks to underwrite and deal in "revenue" bonds of States, political subdivisions, and public agencies thereof.

At Governor Robertson's request, Mr. Hexter reviewed correspondence and conferences over the past few months relating to this matter and described the extent to which the current restrictions would be liberalized by the proposed legislation. He also stated various reasons which might be cited in favor of the proposal and in opposition to it.

Governor Robertson then raised the question whether the Board would have any objection to having it made known to investment bankers opposing the proposed legislation that the matter was under study and that their views would be welcomed. In its studies so far, Governor Robertson said, the staff had kept in close touch with the Office of the Comptroller of the Currency.

It was agreed unanimously that there would be no objection to contacting investment bankers opposing the proposed legislation and offering them an opportunity to present their views.

In connection with the above matter, Governor Vardaman stated that it would be helpful to him, and perhaps to the other members of the Board, if the staff would prepare a statement showing the present status under the law of various types of securities and their status if the suggested legislation were enacted.

There was presented a telegram to Mr. Dawes, Vice President and Secretary of the Federal Reserve Bank of Chicago, reading as follows:

Reurtel yesterday. Board approves effective September 13, 1954, rate of 2 per cent on advances to member banks under Section 10(b). 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 September 9, 1954.

Approved unanimously, with the understanding that a notice of the action would be sent to the Federal Register.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the nine Federal Reserve Banks on September 9, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting then adjourned. During the day the following additional actions were taken by the Board with Chairman Martin and Governors Szymczak, Vardaman, and Robertson present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 9, 1954, were approved unanimously.

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointments, effective upon the date of assuming duties

Name and title	Division	Type of appointment	Basic annual salary
Travis J. Johnson, Assistant Federal Reserve Examiner	Examinations	Temporary indefinite	$5,940
Dolores Ann Winkler, Stenographer	Examinations	Temporary indefinite	3,190

Salary increases, effective September 12, 1954

Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Zoe Gratsias, Minutes Clerk		$3,110	$3,255
Hannah W. Nielsen, Records Clerk		3,270	3,415
Gladys I. Trimble, Records Clerk		3,270	3,415
Martha Lou Ware, Index Clerk		3,110	3,255
	Research and Statistics		
Ruby S. Andrews, Editorial Clerk		3,910	4,035
Mona E. Dingle, Economist		7,240	7,440

Salary increases, effective September 12, 1954 (continued)

Name and title	Division	Basic annual salary From	To
	Research and Statistics		
Theodore Flechsig, Economist		$4,705	$4,830
Edward R. Fry, Economist		4,330	4,455
Paul F. Smith, Economist		7,240	7,440
Josephine Spicer, Administrative Clerk		3,335	3,415
Philip M. Webster, Economist		5,435	5,560
Joan R. Winter, Clerk		3,175	3,255
	International Finance		
Dorothy L. Helprin, Economist		4,705	4,830
	Examinations		
Robert N. Westmoreland, Jr., Assistant Federal Reserve Examiner		3,410	3,535
	Bank Operations		
E. Ralph Massey, Technical Assistant		7,440	7,640
	Administrative Services		
Mary E. Sanders, Secretary		4,420	4,545
Frances M. Callahan, Assistant Manager, Cafeteria		3,535	3,660
Alene D. Carroll, Charwoman		2,700	2,770

Salary increases, effective September 12, 1954 (continued)

Name and title	Division	Basic annual salary From	To
	Office of the Controller		
F. Allison Kramer, Accounting Clerk		$4,705	$4,830

Approved unanimously.

Letter to Mr. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

This refers to your letter of September 7, 1954, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Five-Year Bonds of 1954 dated September 15, 1954, due September 15, 1959, in an aggregate principal amount of $50,000,000. In this regard you indicate that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1950, between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves the contemplated undertaking by your Bank to act as fiscal agent with respect to the proposed bond issue and the execution in that connection by your Bank of an agreement with the International Bank in the form, or substantially in the form, of the draft of Supplement No. 7 enclosed with your letter, which is stated to be in the form of Supplement No. 6, dated as of January 13, 1954, to the Fiscal Agency Agreement.

Approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

Reference is made to your letter of September 1, 1954, advising of the proposal of Southern Bank and Trust Company, Richmond, Virginia to move its Westhampton Branch in Richmond from 3011 West Cary Street to 3201-09 West Cary Street, the latter location being two blocks from the present site.

It appears that the proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, accordingly, we concur in the opinion of Counsel for the Reserve Bank that the approval of the Board of Governors is unnecessary.

Approved unanimously.

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

Referring to your letter of September 2, 1954, the Board of Governors extends until November 15, 1954, the time within which the Merchants Trust Company, Muncie, Indiana, may establish a branch at 1719 Broadway and a branch at 2700 West Jackson Street, both in Muncie, Indiana, as approved by the Board under date of September 17, 1953.

Approved unanimously.

Letter for the signature of Chairman Martin to The Honorable George M. Humphrey, Secretary of the Treasury, reading as follows:

With my letter of August 5, 1953 I transmitted to you for consideration within your Department a tentative draft, prepared at the Federal Reserve Bank of New York, of a proposed agreement with the Bank's correspondents covering a procedure for the establishment and operation of a gold bar pool in which each participant, including the United States, would own an undivided interest in terms of a stated quantity of troy ounces of fine gold. As I indicated in my letter, the proposed agreement was drafted as the result of a study at the New York Reserve Bank which was prompted by a desire to effect economies in the handling of gold transactions and custodies, and also by the growing need for adopting measures to alleviate the shortage of vault space by using such space more efficiently when employed for the storage of gold.

In a letter dated August 14, 1953, Mr. Overby advised that the draft had been turned over to members of the staff for careful study and he agreed that it would seem appropriate that the matter be discussed by representatives of the Federal Reserve System and your Department after the study had been completed.

The President of the Federal Reserve Bank of New York has now informed the Board that in view of developments, including informal indications that some of the Bank's foreign correspondents probably would not look with favor on the proposal, the Reserve Bank has decided to withdraw its suggestion for establishment of the gold bar pool and proposes to meet the space requirements by making certain structural changes in its vault facilities.

Approved unanimously, together with the following letter for the signature of Chairman Martin to Mr. Sproul, President, Federal Reserve Bank of New York:

This refers to your letter of August 24, 1954 in which you advised that for various reasons the Federal Reserve Bank of New York had decided to withdraw its suggestion for the establishment of a gold bar pool in which undivided interests would be owned by your foreign correspondents and by the United States. In your letter you suggested that the Board might wish to inform the Secretary of the Treasury of your decision and there is enclosed a copy of a letter which has been sent to Mr. Humphrey under today's date.

Your plans for structural changes and additional installations to increase the effective storage capacity of the gold vault and to reduce handling expenses have been noted, along with the fact that you propose to include in the 1955 budget of the Bank provision for the cost of the alterations in the vault.

Secretary