Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 11, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Miller
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics

The following members of the staff of the Division of International Finance also were present:

Mr. Marget, Director
Mr. Furth, Chief, Western European and British Commonwealth Section
Mr. Hersey, Chief, Special Studies Section
Mr. Heuser, Chief, Central and Eastern European Section
Mr. Tamagna, Chief, Financial Operations and Policy Section
Mr. Whittington, Chief, Far Eastern Section
Mr. Katz, Economist
Mr. Olson, Economist

The staff of the Division of International Finance presented a report on current international financial developments. At the conclusion of this report and a discussion based thereon, Messrs. Furth, Hersey, Heuser, Whittington, and Katz withdrew from the meeting.

At the request of the Board, Mr. Marget commented on developments in connection with the recent Federal Reserve gold loan to Banco do Brasil, as fiscal agent of the United States of Brazil, referring particularly to statements reportedly made by the Brazilian Minister of Finance during a press interview in New York City subsequent to the making of the loan. Mr. Marget's comments were based in part on a memorandum from Mr. Tamagna dated October 8, 1954, copies of which had been sent to the members of the Board prior to this meeting.

Mr. Olson then withdrew from the meeting.

Before this meeting, the members of the Board had received copies of a letter addressed to Chairman Martin under date of October 7, 1954, by Mr. Glen A. Lloyd, Acting Director of the Foreign Operations Administration, who stated that the Administration was concluding a contract with A. D. Little, Inc., for an industrial survey of Iraq as a follow-up to the economic study made by the International Bank for Reconstruction and Development in 1952, that Little had enlisted the interest of Mr. Neal, First Vice President of the Federal Reserve Bank of Boston, in serving as special economic adviser for this survey, and that Mr. Neal probably would spend two months in Iraq commencing on or about December 15, 1954, if he undertook the assignment. The letter stated that Mr. Neal felt he could complete a current study of the activities of Edge corporations before it would be necessary for him to leave for Iraq, and it requested that the Board express its consent to Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston.

The matter was discussed in the light of Mr. Neal's assignment as Chairman of the Special Committee on Foreign Operations of American Banks, reference being made to the date on which it was anticipated that the Committee report would be ready (between November 15 and 30) and the need for Mr. Neal's presence in discussions of that report.

Chairman Martin then suggested that Governor Szymczak be asked to discuss the request of the Foreign Operations Administration with Chairman Hodgkinson and Mr. Neal in relation to the desirability of Mr. Neal being available for discussions of the report of the Special Committee.

This suggestion was approved unanimously.

Reference was made by Chairman Martin to a communication from the Secretary of State dated October 6, 1954, proposing the designation of Mr. Arthur I. Bloomfield, Senior Economist at the Federal Reserve Bank of New York, to represent the United States at the Second Session of the Working Party of Experts on Financial Aspects of Economic Development scheduled to convene in Bangkok on October 25, 1954. The communication stated that if the Federal Reserve System had no objection to the designation of Mr. Bloomfield, who was now in Indochina on a special assignment for the Foreign Operations Administration, the Department of State would proceed with his formal accreditation and would pay the expenses incident to his attendance at the meeting.

Following a discussion, unanimous approval was given to a letter from Chairman Martin to Mr. Sproul, President

of the Federal Reserve Bank of
New York, in the following form:

Enclosed is a copy of a note from the Secretary of State regarding the Department's desire to have Mr. Arthur I. Bloomfield represent the United States at a meeting which begins in Bangkok on October 25.

The Board of Governors sees no objection to the granting of leave to Mr. Bloomfield so that he may serve in the capacity requested by the Secretary of State.

After your Bank has considered the matter it will be appreciated if you will advise by telegram of your decision so that the Board may inform the Secretary of State as promptly as possible.

Messrs. Marget and Tamagna then withdrew and Messrs. Horbett, Assistant Director, and Conkling, Chief, Member Bank Section, Division of Bank Operations, entered the room.

At the request of Governor Mills, there was presented for consideration a statement on member bank earnings for the first half of 1954, prepared for publication in the October 1954 issue of the Federal Reserve Bulletin. Copies of the statement had been sent to the members of the Board prior to this meeting.

Governor Mills stated that the publication of the statement in the form submitted would be in accord with a practice of long standing and that he had asked for discussion of the matter only because of questions with regard to the publication of member bank earnings which were raised earlier this year.

Governor Vardaman stated that for a long time he had questioned the fairness of publishing such figures, that in his opinion the publication of these data in certain periods might adversely affect the standing of banks in the estimation of the public, but that if the Board wished to follow the customary procedure in this instance, he would not object. He also noted that any decision to change the present procedure would have to be made jointly with the Comptroller of the Currency.

Chairman Martin expressed the view that the Board had an obligation to make the figures available whether they were good or bad. Governor Robertson said that there appeared to be no choice but to publish the statistics, except by agreement with the Comptroller of the Currency, but that if there were a choice, he would favor publishing them.

At the instance of Governor Robertson, there was some discussion of a sentence in the first paragraph of the statement to the effect that the increase in net profits after taxes for the first half of 1954, as compared with the like period in 1953, was accounted for largely by profits on the sale of securities. It was the view of the majority of the Board and of Mr. Thurston that, since an item of particular interest was involved, reference to this development in the leading paragraph was justified.

At the conclusion of the discussion, the statement was approved for publication in the Federal Reserve Bulletin in the form submitted.

Messrs. Thomas, Young, Horbett, and Conkling then withdrew and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Reference was made to a memorandum dated October 5, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the

Board authorize a reception on October 11 and a luncheon on October 15, 1954, both in the staff dining room, in connection with the seventh session of the School for Assistant Examiners of the Inter-Agency Bank Examination School. The memorandum stated that provision for these items had been made in the 1954 budget of the Division of Examinations.

Approved unanimously.

There was presented a memorandum from the Division of Personnel Administration dated September 20, 1954, recommending that the Board take no action to prevent the continuation on a permanent basis of increases in retirement allowances for certain retired members of the Board Plan of the Retirement System of the Federal Reserve Banks. The Board previously had approved the continuation of these supplemental allowances through June 30, 1955, and the occasion for the memorandum was the enactment of Public Law 747, 83d Congress, providing such supplemental increases on a permanent basis for certain retired Civil Service employees. The memorandum stated that continuation of these payments on a permanent basis to the 14 retired employees of the Board who would be affected would cost in the neighborhood of $31,000 to fund. Attached to the memorandum was a statement giving the names of the affected employees and other pertinent information, including the annual amounts of the supplemental payments.

Following comments by Mr. Sprecher, the recommendation in the memorandum of September 20 was approved unanimously, with the understanding that the amount necessary to fund

the continuation of the payments
on a permanent basis would be
paid into the Retirement System
as soon as the necessary details
could be worked out.

The next item presented for consideration was a memorandum dated October 1, 1954, from Mr. Sprecher summarizing reports submitted by 48 employees of the Board pursuant to the statement of rules approved by the Board on July 21, 1954, and the Board's letter of July 27, 1954, to all members of the staff regarding outside business and teaching activities.

Question was raised by Governor Vardaman with respect to the report of a staff member of the Division of Research and Statistics who stated that he did statistical work occasionally for a private party, consisting mainly of obtaining data from Federal agencies or libraries. Governor Vardaman's concern related to the principle of an employee of the Board obtaining data from other agencies which might assume that he was requesting such information in connection with his official duties as a member of the Board's staff when in fact the data was being compiled for sale to private individuals outside of Government.

During a further discussion, Mr. Vest stated that subsequent to the submission of the reports summarized in the memorandum a member of the staff of the Legal Division (Eugene Harrison, Clerk) had raised with him the question of accepting a job of selling silverware and chinaware two nights each week.

At the conclusion of the discussion, the outside activities
summarized in Mr. Sprecher's memorandum were approved unanimously,
together with the outside activity

mentioned by Mr. Vest, with the understanding that appropriate letters advising of the Board's action would be sent to the employees concerned by the Division of Personnel Administration and that, in view of Governor Vardaman's comments, the Director of the Division of Research and Statistics would discuss with the employee mentioned by Governor Vardaman the matter of his securing statistical information for a private party, to make sure that the division director was fully satisfied that there were no objectionable features in this arrangement.

Chairman Martin referred to a letter which he had received from a discharged employee of the Federal Reserve Bank of Atlanta who requested an investigation of the circumstances surrounding his dismissal. The question raised by Chairman Martin was whether as a matter of procedure such an item should be referred to the Chairman of the Board of Directors of the Federal Reserve Bank concerned as well as to the President of the Bank.

It was the view of the members of the Board that proper procedure would dictate transmitting information on such matters to both the Chairman and President of the Federal Reserve Bank, with a view to assuring that the Board of Directors was aware of the matter and was satisfied regarding its disposition.

Thereupon, unanimous approval was given to a letter from Chairman Martin to Mr. Bryan, President of the Federal

Reserve Bank of Atlanta, in the following form:

The enclosed correspondence has just come to my desk and after reading it over it seemed to me that perhaps the best thing to do was to pass it on to you. While I realize, of course, that it is impossible at this distance to form any accurate judgment in a situation of this kind, I was rather impressed by the earnestness of the writer. I suppose the correspondence should ultimately go back to Mr. Embry, including the cartoon that I am sure did not ingratiate him with his superiors.

I am sending a copy of this correspondence to Rufus Harris for his information.

I don't have to assure you that I am not trying to meddle in the personal affairs of your Bank.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Thurston, Vest, and Sprecher withdrew from the meeting.

Chairman Martin stated that he had had a number of telephone conversations with Mr. Jacob Seidenberg, Executive Director of the President's Committee on Government Contracts, relating to the policy followed by the Federal Reserve Bank of Chicago with respect to the employment of Negroes and in that connection Mr. Seidenberg had requested by telephone a statement of the fair employment practices followed by the Board of Governors, apparently for the purpose of effecting a change in the policies followed by the Chicago Bank. At the Chairman's request, Mr. Sprecher read a draft of letter which he had prepared to be sent to Mr. Seidenberg in response to his request.

Following a discussion of various points raised by the members of the Board in connection with the proposed letter, Chairman Martin suggested that Mr. Sprecher, in consultation with Messrs. Thurston and Vest, revise the draft of letter in the light of the discussion at this meeting, with the understanding that it would be taken up at a later meeting and that Mr. Sprecher would advise Mr. Seidenberg by telephone that it would not be possible to get the letter into his hands by tomorrow.

This suggestion was approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 8, 1954, were approved unanimously.

The meeting then recessed and reconvened in the Board Room at 3:15 p.m. with all of the members of the Board and Messrs. Vest, Chase, Assistant General Counsel, and Shay, Assistant Counsel, present.

Just before the afternoon session, the members of the Board, along with Messrs. Vest, Chase, and Shay heard, informally, arguments by Mr. Steimle of Shearman & Sterling & Wright, Counsel for Investors Management Company, Inc., and Mr. Berlack, General Counsel for Hugh W. Long & Co., Inc., as to why they believed section 32 of the Banking Act of 1933 was not applicable to Messrs. George E. Roosevelt, W. Emlen Roosevelt, and Boykin C. Wright in serving at the same time as directors of certain member banks and as officers or directors of Investors Management Company, Inc.

After some discussion, Governor Robertson moved that the Board write a letter saying that the statute would forbid the relationships, that the Board reached that result reluctantly, and that, while no intent to violate the law seemed to be present, a contrary conclusion by the Board would lead to disastrous consequences as a precedent and make possible the use of contracts to avoid the purpose of the statute.

Governors Szymczak, Mills, and Robertson stated that they were in favor of the application of the prohibition of the law to the facts of this case because they felt that any other position would be a dangerous precedent and that hereafter section 32 of the Banking Act of 1933 would really have no meaning in situations similar to this; that directors of Investors Management Company, Inc., were in reality employees of Long & Co.; that the contract entered into by the shareholders of Long & Co. could not be construed as making the law inapplicable if, in the absence of the contract, it was applicable; and that a conclusion that the statute was not applicable would make it possible to avoid the statute by the use of contractual arrangements of this kind. Governor Mills further indicated that he felt that section 32 clearly prohibited these interlocking relationships and did not contain any loophole which would permit this situation; that to sanction the type of transaction involved here would serve to spread the evil at which the statute was directed; and that the Board must hold the statute applicable here because of its responsibility of interpreting the intent of Congress.

Chairman Martin and Governor Balderston felt that the law was not applicable to the facts of this case and that the Board should not by interpretation extend the law beyond what they considered to be the normal meaning of the language of the statute. Governor Vardaman stated that he would vote in favor of the nonapplicability of the statute on the basis of the contract entered into by the stockholders of Long & Co. to continue in office the three directors in question for a period of ten years; that he placed much significance on the nature and timing of this contract, which he felt made the facts of the case unique; for that reason he would not regard this case as a precedent for another case in which the facts might be similar; and that any other case that might arise would have to be considered on the basis of its own facts. Governor Miller said he felt that the decision turned on whether or not the directors and officers of Investors Management Company, Inc. should be considered employees of Long & Co.

Governor Robertson's motion was put by the Chair and lost, Governors Szymczak, Mills, and Robertson voting "aye" and Chairman Martin and Governors Vardaman, Miller, and Balderston voting "no".

In accordance with this action, it was understood that a letter would be sent to the Federal Reserve Bank of New York which would state that in the opinion of the Board the law was not applicable, would emphasize that the Board's decision was based upon the facts now before the Board and that if there were hereafter any change in any of the facts the Board would wish to reconsider the matter and make a decision at that time on the basis of the then existing facts, and would request the Federal Reserve Bank of New York to review the situation from time to time and call the Board's attention to the matter if there were any change in the facts.

Secretary's Note: The letter sent to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, on October 12, 1954, in accordance with this understanding read as follows:

This is in further reference to your letter of June 23, 1954, and its enclosures, concerning the application of section 32 of the Banking Act of 1933, as amended, to the interlocking relationships of Messrs. George E. and W. Emlen Roosevelt and Mr. Boykin C. Wright with certain member banks and Investors Management Company, Inc., Elizabeth, New Jersey. You will recall that this matter was the subject of earlier correspondence with the Board, particularly your Bank's letter of December 24, 1953, and the Board's reply of February 9, 1954. The subject was also discussed informally with the Board on October 11, 1954, by Messrs. Steimle and Berlack, Counsel for the interested institutions.

After further consideration of the matter, the Board is of the view that, upon the basis of the facts now before it, the interlocking relationships in question do not fall within the provisions of the statute. However, the Board requests that the interested parties be advised that if there should be any change in any of the facts of the situation, the Board would wish to reconsider the matter and reach a decision on the basis of the then existing facts. The Board also requests that your Bank review the situation from time to time, and advise the Board if it should develop that there have been any changes in the facts of the matter.

The Board will appreciate your cooperation in this regard.

The meeting then adjourned.

S Carpenter
Secretary