

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 12, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Robertson
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Johnson, Controller, and Director,
Division of Personnel Administration

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective January 16, 1955:

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---|--------------------------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| | <u>Research and Statistics</u> | | |
| Peter M. Keir, Economist | | \$6,140 | \$6,340 |
| Alice R. Williams, Clerk | | 3,270 | 3,350 |
| | <u>International Finance</u> | | |
| J. Herbert Furth, Chief, Western European and British Commonwealth Section | | 11,050 | 11,300 |
| Arthur B. Hersey, Chief, Special Studies Section | | 11,050 | 11,300 |
| | <u>Examinations</u> | | |
| Herbert H. Hagler, Federal Reserve Examiner | | 6,140 | 6,340 |

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Salary increases, effective January 16, 1955 (continued)

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|-----------------------------------|--------------------------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| | <u>Administrative Services</u> | | |
| Mary E. Dorsey, Printing Clerk | | \$4,830 | \$4,955 |

Approved unanimously.

Memorandum dated January 4, 1955, from Mr. Sloan, Director, Division of Examinations, recommending that the Board's action of June 29, 1951, authorizing travel advances to members of the Board's field staff of examiners in amounts not exceeding 28 days per diem be amended to include, during their service with the field examining staff, officers and employees of the Federal Reserve Banks assigned to one-year tours of duty with the field staff.

Approved unanimously.

Letter to the Board of Directors, Rhode Island Hospital Trust Company, Providence, Rhode Island, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors approves the establishment of a branch at 225-245 Dexter Street in the City of Pawtucket, Rhode Island, by the Rhode Island Hospital Trust Company, Providence, Rhode Island, provided the branch is established by October 1, 1955.

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

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

Reference is made to your letter of December 21, 1954, submitting request of the Citizens State Bank of Walnut, Walnut, Illinois, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an investment in bank premises in excess of the capital stock of the bank.

After considering all available information and your favorable recommendation the Board of Governors

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approves an investment of \$39,695.49 in bank premises by the Citizens State Bank of Walnut.

It is noted that you recommend approval of an investment in bank premises in the amount of \$29,736.30. However, it has been construed that the bank's recent investment was \$39,695.49, and the Board of Governors approves the investment in bank premises of that amount.

This refers to your letter of December 24, 1954, concerning the proposed retirement of preferred stock by the Monticello State Bank, Monticello, Iowa, and the simultaneous increase in common stock by a like amount by means of a stock dividend. There would be no change in the total capital stock of the bank, although the total capital funds would be reduced by \$50,000, the par value of the preferred stock being retired.

Although section 9 of the Federal Reserve Act provides that the capital stock of a State member bank shall not be reduced except with the prior consent of the Board, it may be questioned whether such consent is required in this case, in view of the fact that there will be no reduction in the total capital stock of the bank because of the concurrent increase in its common stock. However, changes of this nature may have a bearing upon the financial condition of a bank and therefore should continue to be brought to the Board's attention. As it appears in this case that the reduction in total capital funds will have no appreciable effect upon the bank's condition, the Board has no objection to the proposed retirement of preferred stock.

Approved unanimously.

Letter to Mr. Hunke, Assistant Federal Reserve Agent, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of December 17 regarding errors in the labeling of Federal Reserve notes at the Bureau of Engraving and Printing, as a result of which a package (\$40,000) of \$10 notes of the Federal Reserve Bank of Cleveland was forwarded to the Federal Reserve Agent at New York, labeled as New York notes, and a corresponding

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amount of notes of the Federal Reserve Bank of New York was forwarded to the Federal Reserve Agent at Cleveland labeled as Cleveland notes. The error became apparent after the Federal Reserve Agent at Cleveland had issued the package of New York notes labeled as Cleveland notes to the Federal Reserve Bank of Cleveland.

Your letter states that the Federal Reserve Agent at New York suggests that the matter be rectified in the following manner with the acquiescence of the Board of Governors:

"Upon receipt of appropriate instructions through an exchange of telegrams or other writings between the Agents at New York and at Cleveland, and between the two Reserve Banks concerned, the Agents will issue the notes to their respective banks upon receipt of the necessary collateral therefor, and the Banks will receive the notes, give collateral therefor and pay them out within their respective districts."

The procedure suggested seems appropriate in the circumstances. As the notes at Cleveland have already been issued against collateral, it would seem that the exchange of telegrams or other writings in the suggested procedure might recognize that fact and provide for the issuance of the notes at New York as a corrective measure.

Approved unanimously, with
copies to Messrs. Matter, Assistant
Federal Reserve Agent, and Laning,
Vice President and Cashier, Federal
Reserve Bank of Cleveland.

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

Inquiries have been received regarding the appropriate reporting of \$350 million mortgages being purchased by banks from Prudential Insurance Company, also the Federal National Mortgage Association three-year notes that will be issued January 20.

Weekly reporting member banks should report former as real estate loans and latter as other securities.

On call reports of condition, mortgages purchased from Prudential should be reported against items 6(b)(1) or 6(b)(2), Schedule A, according to whether specific mortgages purchased are insured by Federal Housing Administration or insured or guaranteed by Veterans

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Administration, and FNMA notes should be reported against asset item 4, other bonds, notes, and debentures. Understand Comptroller's Office and FDIC will advise accordingly at forthcoming call dates.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated November 19, 1954, enclosing photostatic copies of an application to organize a national bank at Murfreesboro, Tennessee, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application, made by an examiner for the Federal Reserve Bank of Atlanta, discloses fairly satisfactory findings with respect to the factors usually considered in these cases, except as to the adequacy of the capital and needs of the community for additional banking facilities. On the basis of volume of business anticipated by the proponents and the proposed investment in fixed assets, it would appear that the capital structure set forth in the application would be somewhat inadequate. It is indicated that the proposed bank would be an added convenience to this growing community; that a locally owned institution would be well received; and that it could develop a fair amount of business. It is questionable, however, whether the needs of the community for additional banking facilities are sufficiently great to warrant the establishment of a new bank at this time. While it is recognized that this is a borderline case, the Board of Governors recommends approval of the application provided arrangements are made for a capital structure satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

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Letter to Grafica Panamericana, S. de R. L., Mexico City, Mexico, (Attention: Mr. Vicente Polo Diez, Manager), reading as follows:

You are hereby notified that the Board of Governors of the Federal Reserve System accepts your bid dated December 17, 1954 submitted pursuant to the Board's Invitation for Bids dated December 2, 1954, for printing and binding the "Proceedings of the Fourth Meeting of Technicians of Central Banks of the American Continent".

It is noted on page 8 of the Form of Bid submitted that you struck out the number of calendar days specified for delivery of proof in various stages. Actually the schedule appears rather stringent but it is the Board's intention to submit manuscript copy in individual parts or chapters rather than to supply the entire manuscript in one instance. Therefore, the time allowed for furnishing galley, page, and revised page proof shall be computed from the date of your receipt of such individual parts of the book. We trust this information will clarify matters with respect to that part of the contract.

In the circumstances we would appreciate being advised, by return mail, of the most favorable schedules you can offer for delivery of the three types of proofs.

Several points covered in the memorandum accompanying your bid are answered as follows:

1. It is recognized that procedures applicable to printing operations in Mexico and the United States may vary to some extent but it is believed any existing differences may be reconciled to the satisfaction of both you and the Board without difficulty.
2. Leader Material, item (f) under Composition in the Form of Bid refers to listings in a book such as table of contents, index matter, etc. In other words the material usually contains lines of dots and dashes to direct the eye to a certain point or page number.
3. You are correct in assuming that item (g) Half Titles does not refer to full pages but rather to a relatively few lines consisting of one-half a page or less.

As stated in the Invitation for Bids, it is the intention of the Board to engage a qualified editor in Mexico City

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to consult with the Board on format and to assist in handling such details as marking copy and proof reading. Advice as to receipt of copy, delivery of proofs and other matters concerning details of the work will be furnished to you in the near future by the Board's Division of International Finance.

There is returned to you herewith a copy of the Board's contract form for your files.

Approved unanimously.

Memorandum dated December 31, 1954, from Mr. Johnson, Controller, submitting the following requests for approval of expenditures in excess of the 1954 budget:

| <u>Division</u> | <u>Account Classification</u> | <u>Amount of Excess</u> |
|------------------------------------|-------------------------------|-------------------------|
| Examinations | Furniture and Equipment | \$ 247 |
| | All Other | 7,391 |
| Defense Loans | Salaries | 1,400 |
| Offices of Members of the Board | Books and Subscriptions | 189 |

Approved unanimously.

Reference was made to a request from Mr. Myrick, Assistant Director, Division of Bank Operations, for authority to travel to Chicago, Illinois, January 19 and 20, 1955, to attend, as associate member, a meeting of the Presidents' Conference Subcommittee on Fiscal Agency Operations.

Approved unanimously.

The following draft of letter to Mr. Fulton, President of the Federal Reserve Bank of Cleveland, which had been circulated to the members of the Board prior to this meeting, was presented for consideration:

Reference is made to your letter of December 16, 1954, regarding the modernization of the main office building, involving programs for power conversion,

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modernization of the electrical distribution system, and air conditioning.

The Board will interpose no objection to the expenditure of approximately \$2,300,000 for the program, as authorized by the Board of Directors of the Bank, which figure includes \$200,000 for contingencies. The total also includes the \$275,000 authorized last April for the power conversion program and which was the subject of the Board letter of April 29, 1954.

With reference to the proposed air conditioning program, Governor Balderston commented on the difficulties experienced at other Federal Reserve Banks in connection with similar projects due to the intense competition between rival air conditioning firms and the methods employed by such firms in order to obtain business. He felt that it might be helpful to the Cleveland Bank if it were advised of the difficulties encountered elsewhere and if suggestions, the nature of which he outlined, were made to the Bank as to procedures which might serve to avoid such difficulties.

Thereupon, the letter to President Fulton was approved unanimously, with the understanding that the suggestions regarding the air conditioning matter which had been mentioned by Governor Balderston also would be transmitted to Mr. Fulton.

Secretary's Note: Pursuant to the foregoing action, Mr. Carpenter talked to President

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Fulton by telephone about the difficulties of other Federal Reserve Banks in connection with their air conditioning programs. This conversation was supplemented by a letter dated January 14, 1955, from Mr. Leonard, Director of the Division of Bank Operations, to Mr. Fulton which submitted for the consideration of the Cleveland Bank the following suggestions:

1. That all dealings with individual subcontractors or suppliers before and after bidding be managed by the general contractor or architect. This means that the Bank itself should have no dealings with any bidder and should not respond to any calls, telegrams, or pleas that anything vital has been overlooked, but should refer all such matters to the general contractor or the architect.
2. That the plans and specifications be worked out in great detail and completeness before bids are sought.
3. That before bids are invited a meeting be had by the general contractor and architect with prospective bidders for the purpose of having a full understanding as to how the bids are to be handled.
4. That it be emphasized that the bidding will close at a certain date and hour, after which there will be no corrections or revisions of any kind, except for modifications suggested by the architect or unless new bids are called for.

Mr. Johnson then withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics, entered the room.

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Consideration was given to a memorandum dated January 7, 1955, from Mr. Marget, Director, Division of International Finance, submitting telegrams proposed to be sent to the heads of the new central banks in Viet Nam, Cambodia, and Laos extending congratulations on the recent opening of those institutions. The memorandum also referred to a suggestion by the Department of State that a congratulatory telegram be sent jointly by that Department and other agencies, including the Board of Governors, to Mr. Arthur Bloomfield of the Federal Reserve Bank of New York in view of his work in Indochina in helping to organize the new central banks.

Governor Szymczak stated that he would have no objection to the sending of the proposed messages to the three new central banks. He questioned, however, the advisability of joining in a telegram from the State Department to Mr. Bloomfield, principally because of the precedent that would be established with respect to other foreign missions involving Federal Reserve personnel.

Following a discussion, the telegrams to the three new central banks were approved unanimously. It was agreed, however, for the reasons mentioned by Governor Szymczak, that the Board should not join with the State Department and other Government agencies in a telegram to Mr. Bloomfield of the kind suggested.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum dated January 10, 1955, from Governor

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Robertson suggesting arrangements, including attendance by members of the Board and its staff at luncheons, dinners, and meetings, in connection with forthcoming visits to Washington by various banking groups. The memorandum had been prepared by Governor Robertson in response to the request at the meeting of the Board on January 5, 1955.

Governor Robertson reviewed his recommendations and made suggestions with respect to attendance by members of the Board in those cases where such suggestions were not included in his memorandum.

At the conclusion of the discussion, the recommendations submitted by Governor Robertson were approved unanimously, with the understanding that final arrangements for attendance by members of the Board at the various luncheons, dinners, and meetings would be worked out with Governor Robertson after the Board members had had a further opportunity to review their schedules.

At the request of the Chairman, Messrs. Young, Riefler, and Thomas commented on a copy of a draft of the forthcoming Economic Report of the President which the Council of Economic Advisers had sent to Governor Mills, as a member of the Advisory Board on Economic Growth and Stability, with a request for comments and suggestions. Reference was made in this connection to marginal notes which had been entered by the staff on the galley.

Following a general discussion of the report, unanimous approval was given to a letter for the signature of Chairman Martin to The

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Honorable Arthur F. Burns, Chairman
of the Council of Economic Advisers,
reading as follows:

May I congratulate you on the Economic Report. It is enlightening, thought provoking, and, in addition, a literary achievement.

As Governor Mills is temporarily absent, I am returning the galley with marginal notes made by the staff which you may want to consider. Some of them refer merely to typographical errors which your staff may already have caught. I assume you do not expect an expression of our judgment on the various recommendations, such as the section dealing with insurance of credit union accounts.

One or two of the marginal suggestions are prompted by the feeling that it might be more appropriate in the light of the President's previous references to the Federal Reserve System to indicate in the wording that the initiative was taken by the System.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 10, 1955, were approved unanimously.

The meeting then adjourned.


Secretary