

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 17, 1955. The Board met in the Board Room at 9:45 a.m.

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

Mr. Carpenter, Secretary  
 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. Cherry, Legislative Counsel

The following staff members of the Division of Research and Statistics also were present:

Mr. Young, Director  
 Mr. Garfield, Adviser on Economic Research  
 Mr. Williams, Assistant Director  
 Mr. Koch, Assistant Director  
 Mr. Eckert, Chief, Banking Section  
 Mr. Gehman, Chief, Business Conditions Section  
 Mr. Jones, Chief, Consumer Credit and Finances Section  
 Mr. Miller, Chief, Government Finance Section  
 Mr. Weiner, Chief, National Income, Moneyflows, and Labor Section  
 Mr. Simpson, Acting Chief, Business Finance and Capital Markets Section  
 Mr. Trueblood, Economist  
 Mr. Wernick, Economist  
 Mr. Wood, Economist

In addition, the following staff members of the Division of International Finance were present:

Mr. Marget, Director  
 Mr. Furth, Chief, Western European and British Commonwealth Section

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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

At the meeting of the Board yesterday there was agreement with a suggestion by Chairman Martin that there be a series of discussions at succeeding meetings concerning the various factors that the Board should take into account currently in determining its monetary and credit policies. As background for these discussions, the staff of the Division of Research and Statistics presented a review of domestic business and financial developments and the staff of the Division of International Finance reviewed developments in various foreign areas, including the effects of financial changes related to the recent trend toward removal of obstacles to normal international market processes.

During the course of these comments Governor Mills withdrew from the meeting to keep another engagement. At the conclusion of the review and discussion based thereon, all of the staff members of the Division of Research and Statistics and the Division of International Finance except Mr. Marget withdrew from the meeting.

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

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personnel actions with respect to the Board's staff as follows:

Appointments, effective upon the re-  
spective dates of assuming duties

| <u>Name and title</u>                   | <u>Division</u>         | <u>Basic annual salary</u> |
|---|-------------------------|----------------------------|
| Margaret H. Rhudy,<br>File Clerk        | Office of the Secretary | \$3,110                    |
| Dora L. Wright,<br>Operator (Key Punch) | Administrative Services | 2,950                      |

Reemployment following maternity leave, effective as of the date of en-  
trance upon duty

Jennie L. Glass, as Clerk, Division of Research and Statistics, with no change in her former basic salary at the rate of \$3,655 per annum.

Approved unanimously.

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

This will acknowledge your letter of February 7 regarding the foreign travel program for members of the Bank's staff which was approved by the board of directors on February 3, 1955.

The plans referred to in your letter have been noted by the Board of Governors without objection, together with the proposed leaves of absence for Assistant General Counsel Clarke, Assistant Vice President Sanford, and Mr. Kriz, Chief of the Foreign Research Division, Research Department, to permit them to lecture at the Center for Latin American Monetary Studies in Mexico City this summer.

Your letter indicates that no final decision has been made with regard to representation of the Bank at the meetings of the International Monetary Fund and the International Bank for Reconstruction and Development at Istanbul, Turkey, in September. The Board will be pleased to have advice of developments in this connection at the appropriate time.

Approved unanimously.

Letter to Mr. Willis, Secretary, Federal Reserve Bank of New York, reading as follows:

The Board of Governors approves the appointments of Messrs. Arthur G. Nelson, Edward J. Noble, and William H.

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Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1955, in accordance with the action taken by the Board of Directors, as reported in your letter of February 3, 1955.

It is noted from your letter that, in view of the small volume of applications for loans under Section 13b of the Federal Reserve Act, the directors consider it inadvisable at this time to seek additional members of the Committee to fill the two existing vacancies.

Approved unanimously.

Letter to Mr. Earhart, President, Federal Reserve Bank of San Francisco, reading as follows:

The Board of Governors approves the appointments of Messrs. Walter A. Starr, Wakefield Baker, E. S. Dulin, Keith G. Fisker, and J. A. Folger as members of the Industrial Advisory Committee for the Twelfth Federal Reserve District to serve for terms of one year each beginning March 1, 1955, in accordance with the action taken by the Board of Directors as reported in your letter of February 2, 1955.

Approved unanimously.

Letter to Mr. Gilbody, Assistant Vice President, Federal Reserve Bank of Boston, reading as follows:

This refers to your letter of February 7, regarding the penalty of \$83.07 incurred by the Winchester Trust Company, Winchester, Massachusetts, on a deficiency of 8 per cent in its required reserves for the semi-monthly period ended January 31, 1955.

It is noted that the deficiency resulted from a clerical error in computing the bank's reserve requirements on January 18, and that the bank has not been deficient in reserves during the past five years.

In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case.

Approved unanimously.

Letter for the signature of the Chairman to the Honorable James P. Mitchell, Secretary of Labor, Washington, D. C., reading as follows:

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Reference is made to your letter of December 22, 1954, with regard to Public Law 767, which is interpreted to provide unemployment insurance protection to the employees of the Federal Reserve Board in Washington for unemployment existing on and after January 1, 1955.

The Board has, for a number of years, availed itself of the services of the United States Employment Service. A pleasant and mutually profitable relationship has existed for a long period of time between placement officers of the United States Employment Service and members of the Board's Division of Personnel Administration. It is certainly contemplated that this situation will continue; however, as the Board is a relatively small organization and employs a great number of specialists whose turnover rate is low, our recruiting is on a very limited basis.

The responsibility for recruitment of Federal Reserve Bank employees under the terms of the Federal Reserve Act is in the boards of directors of the various Federal Reserve Banks. Recent inquiry shows that there is close cooperation between the Reserve Banks and the local offices of the appropriate State Employment Services serving the areas in which they are located.

In the event that there is further information desired, Mr. E. J. Johnson, Director of the Board's Division of Personnel Administration, will be available to consult with Mr. Motley of your staff at any time.

Approved unanimously.

There was presented a request from Mr. Sprecher, Assistant Director, Division of Personnel Administration, for authority to travel to New York, New York, on February 24 and 25, 1955, to attend, as associate member, a meeting of the Retirement Committee of the Retirement System of the Federal Reserve Banks.

Approved unanimously.

At this point Messrs. Johnson, Controller, and Director, Division of Personnel Administration, and Hackley, Assistant General Counsel, entered the room.

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On October 22, 1954, the Board authorized Mr. Katz, Economist in the Division of International Finance, to prepare, in response to an invitation from the National Bank of Belgium, an article on Canadian experience with a flexible exchange rate for publication in the National Bank's monthly bulletin. This action was taken with the understanding that Mr. Katz would accept no remuneration and that the article would be submitted to the Board's Editorial Committee for review.

After drafting the paper, Mr. Katz discussed it with a representative of the Bank of Canada who indicated that the Bank would have no objection to its publication in the bulletin of the National Bank of Belgium or elsewhere. Within the Board's staff, however, certain questions were raised concerning (1) the possibility that the matter of a floating exchange rate might become a controversial issue in Belgium, and (2) the possibility that the appearance of the signed article might be interpreted to reflect the views of the Federal Reserve System or the position of the United States Government.

At the request of the Board, Mr. Marget made a statement in which he discussed the nature and contents of the National Bank of Belgium's monthly bulletin and reviewed the circumstances under which Mr. Katz was asked to contribute the paper. Regarding the latter point, he said that the Bank of Canada had declined a similar invitation on the grounds that to have its staff make the contribution might be considered inappropriate in view of Canada's immediate interest in the subject. While Mr. Marget agreed that the Board should make every effort to avoid any situation where the

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publication of material prepared by a staff member might cause embarrassment, he felt that the facts in this case, namely, the request from the National Bank of Belgium, the review by a representative of the Bank of Canada, and the historical and objective nature of the article prepared by Mr. Katz, all tended to provide assurance that no such embarrassment would be caused. With respect to the position of the United States Government regarding the use of a floating rate by other countries, he remarked that the Government's attitude had been made fairly clear by public comments on various occasions.

Mr. Riefler said that, like Mr. Marget, he considered the article a good one but that due to the somewhat controversial nature of the subject matter, he continued to have some doubt as to the wisdom of submitting it for publication in Belgium. He and Mr. Thomas also felt that the general tone of the paper, in its present form, conveyed an impression of sympathy with the Canadian practice which might not be altogether consistent with an objective analysis.

In a discussion of the matter it was brought out that Mr. Katz was planning to rewrite the article for later publication in a periodical issued by Princeton University and it was suggested that if the article appeared there first, the National Bank of Belgium might then use the paper for its own purposes if it so desired. Some doubt was expressed, however, as to whether such a procedure would meet the fundamental questions involved. During the discussion Mr. Marget referred to the Board's

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policy regarding contributions by members of its staff to scholarly publications and expressed the hope that whatever decision might be made in this particular instance, the Board would continue to permit the publication of such papers, under proper safeguards, since he believed that the recognition afforded by the acceptance of such articles encouraged and stimulated the staff, particularly the younger professional men.

No decision was reached with respect to the Katz paper and it was understood that copies of the article would be sent to the members of the Board so that they might review it before giving further consideration to the matter.

The meeting then recessed and reconvened at 2:00 p.m. with the same attendance as at the end of the morning session except that Governor Mills was present along with Messrs. Sloan, Director, Hostrup, Assistant Director, and Thompson, Federal Reserve Examiner, Division of Examinations, while Messrs. Thomas and Marget were not present.

At the meeting on February 9, 1955, consideration was given to a draft of letter to Congressman Spence, Chairman of the House Committee on Banking and Currency, prepared in response to a request for a report on Bill H. R. 2674, providing for the control and regulation of bank holding companies. Pursuant to the understanding at that time, Governor Robertson had prepared a revised draft and copies thereof had been sent to the members of the Board prior to this meeting.

Following a discussion, during which several changes in the revised draft were suggested, unanimous approval was given to

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a letter for the signature of Chairman Martin to Chairman Spence in the following form, with the understanding that a similar letter would be sent to Chairman Fulbright of the Senate Banking and Currency Committee regarding Bill S. 880 (a bill identical to H. R. 2674), that copies of the letter to Mr. Spence would be sent to Senator Robertson of Virginia, to the Presidents of the Federal Reserve Banks, to the Comptroller of the Currency, and to the Chairman of the Federal Deposit Insurance Corporation for their information, and that a letter would be sent to the Director of the Budget Bureau stating that time had not permitted the Board to obtain the views of that Bureau before transmitting the report to the House Banking and Currency Committee, but that in general and without regard to certain details it was very similar to the report which the Board made on similar bills in the 83d Congress:

This is in response to your Committee's request of January 25, 1955, for the views of the Board with respect to the bill H. R. 2674 "To provide for the control and regulation of bank holding companies, and for other purposes".

It is the Board's view that legislation is desirable to meet the principal problems in the bank holding company field which are not met by existing law, i.e., the unrestricted ability of bank holding company groups to expand and the combination under single control through the holding company device of both banking and nonbanking enterprises. However, the Board believes that the approach should be one of minimum control rather than one designed to meet all situations that may arise. Following this approach, the Board feels that the essential features of any legislation on the subject should be: (1) a requirement that bank holding companies obtain the prior approval of a single administering Government agency before acquiring additional bank stocks; (2) a requirement that bank holding companies divest themselves within a reasonable time of their nonbanking interests, with appropriate exceptions and appropriate tax relief; and (3) a definition of "bank holding company" adequate to cover all companies which need to be covered in order to accomplish the objectives of the legislation.

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As the Board has heretofore indicated, it is not its desire or purpose to oppose or endorse any particular bill, nor does the Board make any recommendation as to the agency which should be selected by Congress for the administration of any such legislation.

The Board's general views on this subject and its position with respect to specific aspects of bank holding company legislation were set forth in my letter to you of April 11, 1952, and in testimony on behalf of the Board before your Committee in June 1952, and before the Senate Banking and Currency Committee in June 1953. The Board continues to adhere to these views, although further consideration has resulted in a refinement of the Board's thinking with respect to a few particular points.

The Board continues to feel that a definition of "bank holding company" based primarily upon ownership or control of 50 per cent or more of the stock of a single bank would be generally adequate for the purposes of this legislation. However, if it should be found that such a definition would not cover all companies which need to be regulated, some lower percentage test, down to the 25 per cent test provided in H. R. 2674, would not seem objectionable. In any event, it is believed that the definition should be related to the control of one bank, rather than two or more banks as provided by the pending bill, since it is evident that the potential abuses which may result from the combination of banking and nonbanking interests under the same control may exist where only one bank is involved. The Board also continues to feel that it is unnecessary and undesirable to vest the administering agency with a broad discretion to bring companies under coverage of the bill where they do not meet the stated definition.

With respect to the exemptions from the definition, it appears to the Board to be questionable whether any company which meets the definition should be exempted from the necessity of obtaining prior approval of the administering agency if it should wish to acquire stock of any additional bank. We cannot believe that such a requirement would work any hardship even upon a charitable or religious institution. However, it is recognized that the requirements of the bill for divestment of nonbanking interests might work an undue hardship upon charitable, religious, and similar nonprofit organizations and that there may be exceptional situations in which control of a bank by an organization with nonbanking interests may actually be desirable. Accordingly, in lieu of any exemption from the definition of "bank holding company"

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itself, it is suggested that provisions be included in the section relating to nonbanking interests which would exempt from the requirements of that section bank holding companies operated principally for charitable, religious, and similar purposes and also any other bank holding company with respect to which the administering agency may determine that its control of a bank is actually in the public interest, as where such control is essential to provide necessary banking facilities or to assure the sound financial condition of the bank involved.

The bill H. R. 2674 would require bank holding companies to obtain the Board's prior consent to the acquisition of any bank stocks however small. In the interest of minimum control, we suggest that such prior consent be required only where, after the particular acquisition of stock of a bank, the bank holding company will own a substantial percentage of the bank's stock, say more than 5 per cent of its outstanding voting shares.

The provisions of section 5(b) of the bill would prohibit approval of any application for the acquisition of stock of a State or national bank if the State banking authorities or the Comptroller of the Currency should disapprove the application. These provisions would diffuse responsibility and result in duplication of effort and, in the Board's opinion, are unnecessary and undesirable. The Board also believes that the provisions of section 5(c), prohibiting acquisitions across State lines or in any State except in accordance with the branch banking laws of the State or pursuant to express statutory authority for such acquisitions, would in effect "freeze" the existing status of bank holding companies and that there is nothing in the present situation which would warrant such a severe approach.

We believe that the rights of the States in this field would be adequately protected if, before approving any acquisition of bank stock by a bank holding company, the administering agency were required to obtain and consider the views of the State banking authorities. The furthest we believe the Congress should go in this direction would be to prohibit a bank holding company from acquiring the stock of any bank in any State if, under the same circumstances, the acquisition of such stock would be expressly prohibited by the statutes of such State.

Section 9 of the bill would make it possible for any person "directly affected" by any determination of the administering agency to bring proceedings for judicial review with a trial

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of the facts de novo by the reviewing court. We feel that a trial of the facts de novo by the reviewing court would be inconsistent with the spirit of the Administrative Procedure Act which exempts from judicial review any action committed to agency discretion. Moreover, if any specific provision for judicial review is to be included in the bill, we think that the right to review should be limited to the principals in the proceedings. In any event, of course, arbitrary, capricious, or unlawful action on the part of the administering agency would be, and should be, subject to review by the courts.

The above represent the Board's principal comments with respect to H. R. 2674. In addition, there are certain other provisions of the bill which we would question. We shall be glad to give you our comments with respect to such provisions and also to elaborate our reasons for the views briefly stated in this letter if you should so desire.

Time has not permitted the Board to ascertain the views of the Budget Bureau regarding this legislation before transmitting this report to you.

Messrs. Thurston, Riefler, Sloan, Hackley, Hostrup, Cherry, and Thompson then withdrew from the meeting.

In October 1953 the Board approved the establishment of a separate grading structure and wage schedule for the classification and compensation of lithographic positions in the Printing Section of the Division of Administrative Services. The schedule then adopted was almost identical to the one approved for printing work by the Interdepartmental Lithographic Wage Board, effective August 30, 1953, and used by most other Government agencies in the Washington area. Prior to this meeting there had been sent to the members of the Board copies of a memorandum dated February 11, 1955, from the Division of Personnel Administration recommending that in line with certain changes recently adopted by the Wage Board, the Board of Governors approve the following revisions relating to its present schedule,

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effective February 27, 1955:

1. Establish a new three-step printing grade scale consisting of the first three step rates for each level in the present four-step schedule.
2. Provide that employees presently paid at the fourth-step rate in the current schedule be continued at that rate following establishment of the new scale until they either leave their present positions or a scheduled rate exceeds their present pay rate.
3. Adopt, in conjunction with the establishment of the new three-step wage scale, a new periodic step increase plan under which employees would be advanced to step two of a salary range in the new scale after 26 weeks (6 months) of satisfactory service in step one, and to step three of a range after 78 weeks (18 months) of satisfactory service in step two.
4. Transfer the two positions in the Printing Section concerned with the operation of photostat equipment from the Board's regular pay schedule to the new printing scale and approve, in conjunction with such transfer, the following adjustments in the pay rates of the present incumbents of these positions:

| <u>Name and title</u>                               | <u>Basic annual salary</u> |           |
|---|----------------------------|-----------|
|   | <u>From</u>                | <u>To</u> |
| Herbert W. Bundy,<br>Operator (Duplicating Devices) | \$3,350                    | \$3,474   |
| Levernon Wood,<br>Operator (Duplicating Devices)    | 2,750                      | 2,870     |

At the request of the Board, Mr. Johnson discussed the reasons underlying the recommendations of the Division of Personnel Administration. In response to questions, he also stated that the work performed in the Board's Printing Section was comparable to that performed in other Government agencies which follow the recommendations of the Inter-departmental Lithographic Wage Board and that although the Board was not

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obliged to follow the Wage Board's recommendations, representatives were sent to the meetings of that Board to keep in touch with developments. He went on to point out that the so-called Fringe Benefits Act, enacted in 1954, provides for consideration of placing certain other types of work under schedules set up by similar wage boards, that the Board's staff was keeping in touch with the situation, but that to date there had been no developments along these lines.

During the discussion Chairman Martin said that in the case of positions on the Board's staff having no function in the determination of System policies and operations, it was difficult for him to see why the Board should not establish scales of compensation in accordance with standards prevailing in other Government agencies for the same types of work. There was general agreement with this view although it was suggested that in all cases the Board should inquire into the nature of the work thoroughly in order to make sure that the positions on the Board's staff involved the same requirements as those elsewhere which might appear from their general description to be similar.

Thereupon, the recommendations contained in the memorandum of February 11, 1955, from the Division of Personnel Administration were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 16, 1955, were approved unanimously.

The meeting then adjourned.

  
Secretary