

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 7, 1955. 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. 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. Young, Director, Division of Research and Statistics  
 Mr. Hackley, Assistant General Counsel

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 dated February 25, 1955, from Mr. Carpenter, Secretary of the Board, recommending the appointment of the following persons as File Clerks in the Office of the Secretary, with basic salary at the rate of \$2,950 per annum, effective as of the dates on which they enter upon the performance of their duties:

Valeria Jane Humburg  
 Janice L. Slight

Approved unanimously.

Memorandum dated February 28, 1955, from Mr. Sloan, Director, Division of Examinations, stating that in accordance with the policy established by the Board on July 18, 1950, arrangements had been made to examine the European branches of certain State member banks and foreign banking corporations this spring, and recommending in this connection that:

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(1) Messrs. S. Herbert Turkus and Harvey Fleetwood, examiners for the Federal Reserve Bank of New York, be designated by the Board of Governors as Federal Reserve Examiners for the purpose of participating in the examinations of the European branches of the foreign banking corporations organized under section 25(a) of the Federal Reserve Act, of the foreign banking corporations operating under agreements with the Board pursuant to section 25 of the Federal Reserve Act, and of State member banks.

(2) Messrs. Glenn M. Goodman, Assistant Director, and John M. Poundstone, Assistant Federal Reserve Examiner, Division of Examinations, be allowed actual necessary transportation expenses in accordance with the Board's travel regulations and per diem in lieu of subsistence not to exceed \$14 while outside the United States, except while on board ship, together with reimbursement for accident and baggage insurance in the amounts customarily allowed by the Federal Reserve Bank of New York for its personnel traveling abroad on official business.

The memorandum also stated that the Federal Reserve Bank of New York would take care of all expenses of Messrs. Turkus and Fleetwood with the exception that reimbursement would be made to the Reserve Bank for the pro rata share of the expenses to be charged to Bank of America and The Chase Bank, both of New York, New York, in accordance with the procedure outlined in Mr. Sloan's memorandum to the Board of April 13, 1951, entitled "Fixing the cost of examinations of 'Edge Banks' and their branches".

Approved unanimously.

There was presented a request from Mr. Myrick, Assistant Director, Division of Bank Operations, for authority to travel to St. Louis, Missouri, on March 9 and 10, 1955, to attend, as associate member, a meeting of the Subcommittee on Accounting of the Presidents' Conference.

Approved unanimously.

At this point Mr. Leonard, Director, Division of Bank Operations, entered the room.

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Governor Szymczak summarized the discussion with President Bryan and other representatives of the Federal Reserve Bank of Atlanta at the meeting on March 3, 1955, concerning the Reserve Bank's proposal to expend approximately \$119,900 to enlarge the capacity of, and correct conditions in, the air conditioning system at the Jacksonville Branch. He expressed the opinion that in all the circumstances there seemed to be no other course except to approve the contemplated expenditure. While a number of errors appeared to have been made, he pointed out that the total cost of the original installation and that of the proposed additional work would be only about \$15,000 greater than if the air conditioning system had been designed and installed acceptably in the first instance.

Governor Vardaman agreed with Governor Szymczak's views but expressed the opinion that as a matter of record, a letter should be sent to the Federal Reserve Bank which, in addition to approving the additional expenditure, would request that steps be taken in the future to prevent a repetition of such an incident. Following a statement by Mr. Leonard regarding the procedures followed in developing plans for the air conditioning systems at the Birmingham and Nashville branches, and the employment, or proposed employment, of local associate architects in connection with those building programs, Governor Vardaman suggested that the letter to the Atlanta Bank refer to those steps and also call attention to the desirability of making arrangements so that the respective boards of directors would share fully in the responsibility for these and any other branch building programs.

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There was unanimous agreement with Governor Vardaman's suggestions and it was understood that an appropriate letter to the Federal Reserve Bank of Atlanta would be drafted.

In connection with the foregoing discussion, Mr. Carpenter read as a matter of information a letter received by President Bryan from the President of Carrier Corporation expressing regret regarding the actions taken by representatives of that Corporation in protesting the award to a competing concern of the contract for the air conditioning installation at the Birmingham Branch. This matter was the subject of the Board's letter to Carrier Corporation dated December 13, 1954, the sending of which followed discussion by the Board of certain representations that had been made by the company.

Governor Szymczak then reviewed the discussion with Mr. Young, President of the Federal Reserve Bank of Chicago, at the meeting on March 3, 1955, concerning borrowing by Illinois banks from the Federal Reserve Bank in connection with the State personal property tax which is levied as of the first of April.

During an ensuing discussion reference was made to the general principles contained in the Foreword to Regulation A, Advances and Discounts by Federal Reserve Banks, particularly the statement of conditions under which Federal Reserve credit is extended on a short-term basis and under which such credit is available for longer periods. It was the view of Mr. Young and other members of the staff that the situation in Illinois

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was one which should be dealt with by the extension of credit on a short-term basis, as opposed to the apparent interpretation of the Federal Reserve Bank of Chicago that this was a case of assistance to member banks "in meeting unusual situations such as may result from national, regional, or local difficulties or from exceptional circumstances involving one particular member bank." Mr. Young's interpretation meant in essence that Illinois member banks would be permitted to borrow from the Reserve Bank in order to meet reserve needs at the time of the deposit drain just prior to the first of April but that longer-term borrowing in order to carry Treasury bills for resale to depositors would not be regarded as a legitimate use of Federal Reserve credit. Attention also was called to the statement in the general principles that under ordinary conditions the continuous use of Federal Reserve credit by a member bank over a considerable period of time is not regarded as appropriate.

Governor Vardaman made a statement in which he expressed the view that because of the unusual tax situation in Illinois, the Federal Reserve Bank should be in a position to accommodate member banks both in meeting the withdrawal of deposits and, to a reasonable extent, in carrying Treasury bills with which to supply their customers. Regarding the basis on which a member bank should be allowed to borrow for such purposes, he felt that while there was nothing morally wrong in borrowing on a basis longer than 15 days, particularly if the borrowings were paid down regularly, such a



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practice technically was not in conformity with Regulation A and advances by the Federal Reserve Bank therefore should be made on a short-term basis.

Following a further discussion, during which Chairman Martin said that in his opinion there was something to be said on both sides of the question and the other members of the Board seemed inclined to support generally the position taken by the staff, Governor Robertson suggested that since borrowing associated with the Illinois personal property tax had taken place over a number of years and since borrowing for the purpose of carrying Treasury bills for later resale to customers apparently was being done this year on a more modest basis than previously, the Board might defer consideration of the matter until about the middle of April, at which time it could consider sending a letter to the Federal Reserve Bank of Chicago giving its views so that the Reserve Bank might study it, take the matter up with the member bank principally concerned if it desired to do so, and then present any different views for the Board's consideration.

At the conclusion of the discussion there was unanimous agreement with Governor Robertson's suggestion that the matter be held over for further consideration after the first of April, with the understanding that at that time a decision would be made on the form of letter which should be sent to the Federal Reserve Bank of Chicago.

Mr. Hackley then withdrew from the meeting and Messrs. Bethea, Director, Division of Administrative Services; Johnson, Controller, and

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Director, Division of Personnel Administration; and Hexter, Assistant General Counsel, entered the room.

Prior to this meeting there had been sent to the members of the Board copies of a letter dated February 21, 1955, from Mr. T. J. Watson, Jr., President of the International Business Machines Corporation, New York, New York, to Mr. E. H. Dohrmann of that company's Washington office, stating that in the course of preparation of the company's defense in a pending antitrust case, it had been determined to be essential that the company survey its customers to provide accurate information on the company's "share of the market in which its accounting machines are distributed." The letter also stated that Joel Dean Associates of Yonkers, New York, economic and management counsel, had been engaged to devise a plan of collecting objective data; that Joel Dean Associates had designed a survey of the use of accounting machines by a sample of customers; that National Analysts, Inc., of Philadelphia, Pennsylvania, a market research organization, had been engaged to choose the sample and had selected 517 business and Government organizations, including the Board of Governors; and that the public accounting firm of Arthur Andersen & Co. had been engaged to check the work of the survey representatives in approximately 10 per cent of the organizations surveyed. There had also been sent to the members of the Board copies of a letter to the Board from Mr. Dohrmann dated February 28, 1955, giving supplemental information, including the fact that the Special Assistant to the Attorney General in charge of the

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antitrust action had been informed of the survey.

Mr. Carpenter said that representatives of the International Business Machines Corporation had discussed the matter with him, that it seemed clear that the purpose of the survey was to develop necessary information for presentation to the court, and that therefore the request appeared to be a proper one.

During a discussion of the matter Mr. Young suggested that the field of business machine equipment was a highly competitive one and that to make data available to representatives of one company might open the question of similar cooperation with other firms. On this point it was stated that there would seem to be no harm in permitting other firms to make similar surveys if they so requested, and that it was understood that cooperation with the representatives of International Business Machines Corporation would be limited to making available the necessary data on machines and personnel used on the various types of machine work done at the Board's offices.

It was then suggested that before making a response to the request it would be desirable to have advice from the Attorney General of the United States to the effect that he was familiar with the proposed survey and would have no objection to participation on the part of the Board.

At the conclusion of the discussion it was understood that an appropriate letter would be sent to the Attorney General and that in the absence of objection, International Business Machines Corporation would be permitted to make the requested survey.



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Mr. Johnson then withdrew from the meeting.

At the meeting on February 23, 1955, preliminary consideration was given to a memorandum from Mr. Solomon dated February 16, 1955, concerning a suggested amendment to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which would extend the time for obtaining margin, and it was agreed to defer further consideration until a time when all of the members of the Board were present. Chairman Martin now suggested that consideration of the proposed amendment again be postponed until the matter could be reviewed in the light of the current stock market investigation by the Senate Banking and Currency Committee and there was agreement with this suggestion.

Mr. Hexter then withdrew from the meeting.

Governor Robertson said that he had been invited by Mr. Carl M. Flora to speak before a meeting of the American Bankers Association's Installment Credit Commission in St. Louis, Missouri, on March 19, 1955. He said that it would be inconvenient for him to accept the invitation but that Mr. Young, Director, Division of Research and Statistics, would be available and that Mr. Flora was agreeable to this alternative. He also said that the invitation contemplated a general statement on economic and financial developments.

The arrangement proposed by Governor Robertson was approved unanimously.

There were distributed copies of a draft of letter to President Young, Chairman of the Conference of Presidents of the Federal Reserve

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Banks, concerning topics discussed at the joint meeting of the Board and the Presidents on March 3, 1955.

At the conclusion of a discussion of the various topics, unanimous approval was given to a letter to President Young in the following form:

The topics discussed at the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on March 3, 1955, have been given further consideration by the Board and the following actions have been taken:

Fundamental Review of Retirement System. The Board has previously approved the proposal for a fundamental review of the Retirement System and will be glad to consider the procedures to be followed in making the review when they have been formulated. In connection with two points raised by Governor Balderston, it was understood at the joint meeting that (a) the Executive Committee of the Retirement System will undertake at once the formulation of a recommendation to the Board and the Presidents with respect to the selection of the consultants to be retained in connection with the study, and (b) the Presidents' Conference Committee on Personnel will initiate promptly, through the Personnel Departments of the various Federal Reserve Banks, a survey of the retirement and other benefits provided by banks and other concerns in the labor markets from which the Reserve Banks draw their employees, the survey to be made on a uniform basis determined by the Committee on Personnel with the approval of the Presidents and the Board.

Review of Policies regarding Reimbursable Expenses. The Board will interpose no objection to the continuation of the present policy of seeking reimbursement for all fiscal agency functions except depository functions of the usual character. The question of over-all policy may be raised again and it is the Board's view that the Reserve Banks and the Board should be prepared to reconsider the whole matter whenever such action appears desirable.

Equipment for Transmission of Wire Transfers of Funds and C.P.D. Transactions in Clear Language between Reserve Banks. The Board approves the increased costs and the alteration in planned facilities at the Branches as approved by the Presidents' Conference.

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Statement of Objectives for the Research Activities of the Federal Reserve Banks. The Board would like an opportunity to study this statement and will communicate with the Presidents again when that has been done.

Disposition of section 13b Surplus. It will be recalled that during a discussion of this topic at the joint session, question was raised as to the need for the appointment of industrial advisory committees at the Federal Reserve Banks. As indicated during the discussion, the Board will be glad if the Reserve Banks will consider this question during the coming year. The Board will also study the matter and give the Reserve Banks the benefit of its views at a later date.

The other matters included in the Presidents' Conference memorandum do not require action by the Board at this time. With respect to Item 3, it is the understanding of the Board that if the detection of counterfeit notes by electronic means is found not to be practicable with existing currency, the matter will be taken up with the Treasury to determine whether that Department would be willing to explore the possibility of adding elements in the printing and processing of paper currency which might make such detection possible and practicable during the sorting operation by mechanical and electronic devices.

A copy of this letter is being sent to the Presidents of the other Federal Reserve Banks.

Messrs. Leonard and Bethea then withdrew from the meeting and Mr. Marget, Director, Division of International Finance, entered the room.

In October 1954 the Board authorized Mr. Katz, Economist in the Division of International Finance, to accept an invitation extended by a representative of the National Bank of Belgium to prepare an article on Canada's experience with a fluctuating exchange rate for publication in the National Bank's monthly bulletin. At the meeting of the Board on February 17, 1955, consideration was given to certain questions which had been raised by members of the Board's staff concerning the advisability

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of submitting the article for publication. No decision was reached, and it was understood that copies of the article would be sent to the members of the Board for review.

The matter was considered further and the submission of the article to the National Bank of Belgium for use in its monthly bulletin was approved unanimously.

In connection with the foregoing action there was a discussion of the practice followed currently with respect to the submission of articles prepared by members of the staff for publication in professional journals and elsewhere. It appeared that the number of such papers was relatively small and it was stated that when any questions of policy were involved, steps were taken by Mr. Thurston to bring the matter to the attention of the Board.

Chairman Martin then suggested that Governor Mills be requested to discuss the current procedure with Mr. Thurston and to make such recommendations to the Board as he considered desirable.

This suggestion was approved unanimously.

Mr. Marget then withdrew from the meeting.

There was presented a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., prepared in response to the Bureau's request for the Board's views on the enrolled enactment, S. J. Res. 42.

Following a discussion, unanimous approval was given to a letter to Mr. Jones in the following form:

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This is in response to your request of March 3, 1955, for the views of the Board on the enrolled enactment, S. J. Res. 42, which amends section 217 of the National Housing Act, as amended, in order to increase by \$1.5 billion the mortgage-insurance authorization of the Federal Housing Administration.

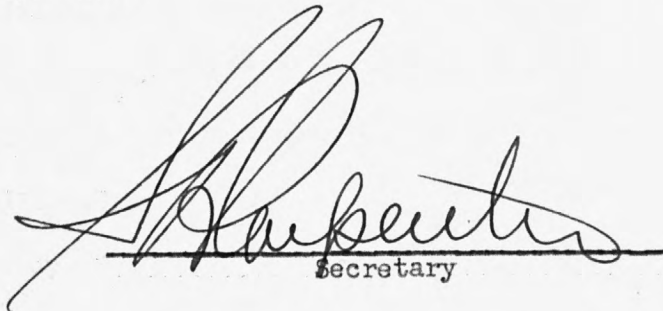
You are advised that the Board has no objection to this legislation.

Mr. Thurston stated that the Board's Annual Report for 1954 was now in form to be printed in the absence of further comments from the members of the Board.

The Annual Report was approved unanimously, with the understanding that it would be distributed in the usual way.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 4, 1955, were approved unanimously.

The meeting then adjourned.



Secretary