

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 2, 1955. The Board met in the Board Room at 3:50 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Young, Director, Division of
Research and Statistics
Mr. Molony, Special Assistant to the
Board

Before this meeting the Board had had a number of discussions in executive session of the action that might be called for with respect to changes in the discount rates in effect at the Federal Reserve Banks. The matter was fully reviewed at the meeting of the Federal Open Market Committee earlier today at which Chairman Martin stated, in response to an inquiry from Mr. Bryan, President of the Federal Reserve Bank of Atlanta, that, following a meeting this afternoon of himself and Messrs. Sproul (President of the Federal Reserve Bank of New York) and Balderston with representatives of the Treasury, the Board would consider the action that it would take with respect to: (1) a telegram from the Federal Reserve Bank of Cleveland dated July 27, 1955, which stated that at a special meeting that day the directors of the Bank established, subject

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to the approval of the Board of Governors, a rate of $2-1/4$ per cent on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act and a rate of $2-3/4$ per cent on advances to member banks under section 10(b), and (2) telegrams from the Federal Reserve Banks of Boston and Chicago dated August 1 and July 28, 1955, respectively, which stated that the directors of those Banks had established, subject to the approval of the Board of Governors, a rate of 2 per cent on discounts and advances under sections 13 and 13a and a rate of $2-1/2$ per cent on advances under section 10(b).

In addition, telegrams had been received by the Board from six other Federal Reserve Banks, the directors of which had, either on July 25 or 28, 1955, established without change, subject to the approval of the Board of Governors, the rates of discount and purchase in their existing schedules.

Chairman Martin stated that in accordance with the understanding at the meeting of the Federal Open Market Committee, he, Mr. Balderston, and Mr. Sproul met with Secretary of the Treasury Humphrey and the Chairman of the Council of Economic Advisers, Mr. Arthur Burns. He said that he and Mr. Sproul presented the reasons for and against an increase in the discount rate to $2-1/4$ per cent along the lines of the statements made at this morning's meeting of the Federal Open Market Committee, and that at the conclusion of the discussion Mr. Humphrey indicated that while he would not raise any question on an increase in the rate to $2-1/4$ per cent, if

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that were the judgment of the Board, he was inclined to reverse his earlier view and favor a rate of 2 per cent. The Secretary also said, Chairman Martin stated, that if disorderly or panic conditions developed in the market, it would be the responsibility of the Federal Reserve to take steps to correct the situation. Chairman Martin added that while he might be wrong, he did not think any serious conditions would arise.

At the request of the Chairman, Governor Balderston commented further on the meeting earlier this afternoon, stating that he gathered Mr. Burns had some concern that an increase in the discount rate to 2 per cent might not be decisive enough and that action had not been taken soon enough. He understood Mr. Burns to feel that there had been a good deal of speculation concerning a discount rate increase and that he personally would favor an increase to 2-1/4 per cent. Mr. Humphrey, he said, seemed to favor personally a 2 per cent rate, but agreed with an observation (by Governor Balderston) regarding the possibility of a general price increase under current business and economic conditions and concluded by saying that, despite his personal preference, whatever action the Board decided upon would be agreeable to him, assuming that if the Government securities market became disorderly the Federal Reserve would support the market to the necessary extent. There was little discussion, Governor Balderston said, with regard to the timing and nature of any support activities.

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Chairman Martin referred again to the discussion at the meeting of the Federal Open Market Committee this morning concerning the risks involved in going to 2-1/4 per cent and said that, despite his awareness of those risks, he felt strongly that the Board should approve a rate of 2-1/4 per cent, for if it did not do so the situation might be one of "too little and too late". Therefore, he would favor approval of the 2-1/4 per cent rate at Cleveland. He would also, however, favor approval of the 2 per cent rate at Boston and Chicago since it had been fixed in the judgment of the directors of those Reserve Banks. In this connection, Chairman Martin said that he inquired of Chicago Reserve Bank President Young earlier today whether he would like the Board to defer approving the proposed rate at Cleveland until another meeting of the Chicago directors could be called, to which Mr. Young responded that he would prefer to have the Board act on the 2 per cent rate established by the Chicago directors.

The discussion then turned to the question of public reaction to an announcement of the establishment of a 2-1/4 per cent rate at Cleveland and a 2 per cent rate at Boston and Chicago. Messrs. Thurston and Molony expressed the opinion that some confusion was apt to be created and that in the circumstances the announcement and explanation of the action should be handled carefully in order to avoid as much as possible any misinterpretation of the situation. The discussion also concerned the question whether action should be taken by the Board this afternoon in view of the

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fact that only a little time was available in which to distribute a public announcement and make other necessary contacts with the press.

Governor Mills indicated that he would prefer to approve the Cleveland rate and defer action at Boston and Chicago, it being his opinion that an announcement of the Cleveland rate would afford a clear indication of policy, that other Reserve Banks would establish the same rate very shortly, and that the Boston and Chicago Banks would have an opportunity to review the matter, following which they might well decide upon the establishment of a 2-1/4 per cent rather than a 2 per cent rate.

Governor Balderston suggested that it might be unfair to the other Reserve Banks and to the public to act upon and announce only the Cleveland rate. Governor Robertson concurred, stating that in his opinion an announcement of the rates fixed by all three Banks would be properly interpreted to mean that the Board felt the higher rate was warranted in the interest of a more restrictive credit policy, but that in view of the decentralized character of the Federal Reserve System the Board likewise was approving the lower rate which had been fixed in the judgment of the Boston and Chicago directors.

Governor Shepardson said he had obtained the impression at the Federal Open Market Committee meeting that some of the Presidents would appreciate an opportunity to hold meetings of their directors and consider fixing a 2-1/4 per cent rate before the Board acted upon and announced the

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Cleveland rate. However, in view of President Young's statement to Chairman Martin, he was inclined to feel that, despite the possibility of a somewhat confused public reaction, it would not be well to approve the Cleveland rate without acting upon the Boston and Chicago rates because the Board would appear to be refusing to sanction a rate fixed by the Boston and Chicago directors.

Governor Szymczak stated that he would have no objection to approving the rates fixed by all three Banks, provided care was exercised in making the announcement to make it clear that the directors of the respective Banks had fixed the rate in their judgment and that the Board had approved the rate thus established. He was concerned principally about the timing and extent of the support of the Government securities market which the System might have to undertake and pointed out that it would be necessary to define what constituted a disorderly market.

Governor Mills then moved that the Board approve the 2-1/4 per cent rate for Cleveland.

Governor Robertson moved, as a substitute motion, that the Board approve the rates fixed by the Boston, Cleveland, and Chicago Banks.

During a discussion, further consideration was given to the question whether full press coverage would be possible if an announcement were made this afternoon. Difficulties were anticipated in this connection, particularly since a press release had not yet been prepared.

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Governor Shepardson then moved that action on Governor Robertson's motion be deferred until a meeting of the Board tomorrow morning.

This motion was approved by unanimous vote.

Reference was made to a memorandum from Messrs. Riefler and Young dated July 26, 1955, which had been circulated to the members of the Board, recommending that Alexander Sachs, an independent business consultant, Professor Jacob Viner, of Princeton University, and Professor Edward S. Shaw, of the Brookings Institution and Stanford University, be appointed consultants to the Board for the remainder of the year 1955 to work with members of the Board's staff in exploring the appropriate research approach to longer-term financial problems, an area in which Governor Vardaman had suggested that study be undertaken. It was recommended that the three consultants be appointed on a temporary contractual basis, with compensation at the rate of \$50 per day for each day worked for the Board either in Washington or outside the city, with a per diem in lieu of subsistence at the rate of \$15 for the amount of time spent in a travel status in connection with their assignments, with transportation expenses in accordance with the Board's travel regulations applicable to an assistant division head, and with the understanding that for purposes of travel the headquarters of each individual would be either the home or place of business. The memorandum stated that an estimate of the total consultant

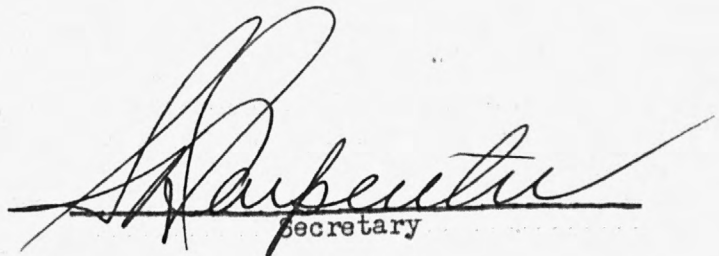
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and incidental expenses of the program was not feasible at this time, but that a firmer estimate of expenses might be possible when the Board's annual budget for 1956 was prepared.

The recommendations contained in the memorandum were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 28 and August 1, 1955, were approved unanimously.

The meeting then adjourned.


Secretary