

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 18, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel

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

Mr. Young, Director
Mr. Garfield, Adviser on Economic Research
Mr. Williams, Assistant Director
Miss Burr, Assistant Director
Mr. Koch, Assistant Director
Mr. Eckert, Chief, Banking Section
Mr. Gehman, Chief, Business Conditions Section
Mr. Miller, Chief, Government Finance Section
Mr. Weiner, Chief, National Income, Money-flows, and Labor Section
Mr. Allen, Economist
Mr. Paul Smith, Economist
Miss Stockwell, Economist
Mr. Trueblood, Economist
Mr. Wernick, Economist
Mr. Wood, Economist

10/18/55

-2-

The representatives of the Division of Research and Statistics presented a review of business and credit developments following which all of the members of the staff except Messrs. Carpenter and Solomon withdrew from the meeting.

Last week Mr. Strothman, Vice President of the Federal Reserve Bank of Minneapolis, called Mr. Solomon to inquire whether Mr. John Peyton, a retired president of the Bank, would be eligible for election as a Class B director if nominated by a member bank. Mr. Strothman stated that Mr. Peyton was a director of the Wisconsin Central Railroad and of Investors Diversified Services (or one of the institutions affiliated with that organization) and the question was whether these connections would meet the requirement of the law that Class B directors be actively engaged in their district in commerce, agriculture, or some other industrial pursuit. It appeared that Investors Diversified Services was a financial institution and was not the kind of business Congress had in mind. In 1930 the Board's Legal Division took the position that a person whose sole business connection was that of director of a railroad would not satisfy the requirement of the statute.

After discussing the matter with the Secretary of the Board and Chairman Martin, Mr. Solomon called Mr. Strothman back and informed him that there was a serious question whether Mr. Peyton could qualify as a Class B director. In a memorandum which Mr. Solomon prepared for the

10/18/55

-3-

files under date of October 13, 1955, with respect to the above matter, he differentiated the question raised in Mr. Peyton's case from that raised in the case of Mr. Clarence Francis as a Class B director of the Federal Reserve Bank of New York on the basis of the fact that the latter is a director of several industrial corporations including General Foods Corporation, of which Mr. Francis was the former chairman of the board.

On October 17, 1955, Mr. Perrin, Chairman of the Federal Reserve Bank of Minneapolis, called Chairman Martin to discuss the question of the eligibility of Mr. Peyton. Chairman Martin informed Mr. Perrin that there was a real question whether Mr. Peyton should be regarded as meeting the requirement of the statute, that there was also the question raised by the fact that Mr. Peyton is receiving substantial retirement payments from the Retirement System of the Federal Reserve Banks and supplementary retirement payments directly from the Federal Reserve Bank, and that in all the circumstances he would discuss the matter with the Board and call Mr. Perrin back.

Following the telephone conversation with Mr. Perrin, at Chairman Martin's request, copies of Mr. Solomon's memorandum of October 13 were distributed to the members of the Board.

At this meeting the developments outlined above were reviewed and the position that the Board should take was discussed in the light of the requirements of the law and the authority of the Board in the circumstances.

10/18/55

-4-

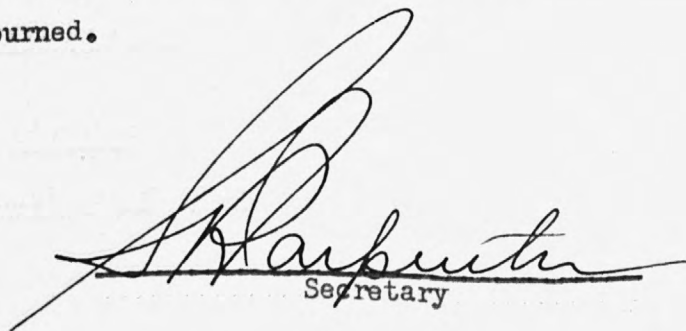
On the latter point Mr. Solomon stated that if Mr. Peyton were elected and the Board felt he did not meet the requirements of the statute, the only course open to the Board would be to challenge the election and remove him on the grounds that he was not eligible.

During the discussion Governor Mills commented that, in addition to the two questions raised by Chairman Martin, Mr. Peyton's service as a Class B director would be subject to the criticism that he was a former Federal Reserve Bank employee and would not represent the fresh outside view that was contemplated by the statutory requirements for Class A and B directors.

At the conclusion of the discussion, it was agreed unanimously that Chairman Martin would (1) call Mr. Perrin and advise him informally that the Board was unanimously of the view that Mr. Peyton should not be nominated as a Class B director and that it was hoped that the questions that would be raised by his election could be avoided, and (2) call Mr. Peyton and urge him, for the reasons discussed at this meeting, to withdraw his name from consideration.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 17, 1955, were approved unanimously.

The meeting then adjourned.


Secretary