Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 26, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Dembitz, Assistant Director, Division of International Finance
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

The following drafts of letters, which had been circulated to the members of the Board, were presented for consideration:

To the Board of Directors, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of branches at the southwest corner of Lansdowne Avenue and Baltimore Pike, Lansdowne, Pennsylvania, and 48 West Marshall Road, Lansdowne, Pennsylvania, by the Fidelity-Philadelphia Trust Company and hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The National Bank of Lansdowne with and into the Fidelity-Philadelphia Trust Company provided (a) the merger is carried out substantially in accordance with the agreement between the parties dated May 20, 1955, and (b) the branches are established within six months from the date of this letter.

Pursuant to Section 24A of the Federal Reserve Act, the Board of Governors also approves an increase of $119,000 in investment in banking premises by Fidelity-Philadelphia Trust Company, representing the banking office of the national bank being absorbed and the proposed branch at 48 West Marshall Road, Lansdowne, Pennsylvania.

To the Board of Directors, Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the merger of The First National Bank of Delaware County, Media, Pennsylvania, with and into the Provident Trust Company of Philadelphia, Pennsylvania, and approves the establishment by the latter bank of branches at:

State Street and South Avenue, Media, Pennsylvania,
Saxer Avenue and Hart Lane, Springfield, Pennsylvania,
South Chester Road and Rutgers Avenue, Swarthmore, Pennsylvania,
Southeast corner Baltimore Pike and Beatty Road, Nether Providence Township, Pennsylvania,

provided the merger is carried out substantially in accordance with the plan of merger submitted with the application and the branches are established within six months from the date of this letter.

Governor Balderston stated that he wished to abstain from voting on these matters because of his acquaintanceship with some of the parties involved.

Following a discussion, the letters were approved, for transmittal through the Federal Reserve Bank of Philadelphia, Governor Balderston not voting.

The following requests for travel authorization were presented:

Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics. Travel to Detroit, Michigan, during the period October 24-28, 1955, to attend a meeting of the Current Business Developments Committee.

Mr. Williams, Assistant Director, Division of Research and Statistics. Travel to Detroit, Michigan, and New York, New York, during the period October 25-28, 1955, to attend a meeting of the Current Business Developments Committee and a meeting of the American Statistical Association.

Approved unanimously.

Reference was made to a memorandum dated October 21, 1955, from Mr. Marget, Director, Division of International Finance, which had been circulated to the members of the Board, recommending that the Federal Reserve Bank of New York be authorized to extend the existing gold loan arrangement with the Bank for International Settlements from November 1, 1955, through October 31, 1956. As under the current arrangement, each borrowing would mature in not more than seven days and total borrowings during any calendar month would not exceed the equivalent of $25 million for a total of seven days. However, in connection with the extension of the facilities, the New York Reserve Bank would make a commitment charge at the rate of 1/4 of one per cent per annum on that portion of the maximum loan facilities not used in any calendar month.

In commenting on the matter, Mr. Marget recalled that when a previous extension of the arrangement came before the Board for consideration earlier this year, the Board decided that a commitment charge should not be included and that the extension should be for a period of not more than six months because a discussion of System gold loan policy was then in process and definite proposals had not yet been made. He stated that the type of arrangement now proposed was contemplated in the draft memorandum entitled "Possible Policy on Gold Loans" which the Board recently sent to the Federal Reserve Banks with a request for their views. He also said that the arrangement appeared to be in conformity with the policy considerations that should guide the System in making loans on gold collateral.

Thereupon, unanimous approval was given to a telegram to Mr. Exter, Vice President, Federal Reserve Bank of New York, reading as follows:

Your wire October 20, Board approves extension of the arrangement to make loan or loans by your Bank to the Bank for International Settlements during a period of one year, from November 1, 1955 through October 31, 1956, up to a total amount outstanding at any one time of $25 million, each borrowing to mature in not more than 7 days and total borrowings during any calendar month not to exceed the equivalent of $25 million for the total of 7 days.

For this facility, it is understood that you will make a commitment charge at the rate of 1/4 of one per cent per annum on that part of the maximum loan facility not used in any calendar month. Otherwise the loan arrangement would conform to your usual terms and conditions:

(A) Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you.

(B) Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

It is understood that the usual participation will be offered to other Federal Reserve Banks.

Messrs. Marget, Dembitz, and Tamagna then withdrew from the meeting.

Prior to this meeting there had been circulated to the members of the Board a draft of letter to the Bureau of the Budget prepared in response to the Bureau's request for the Board's views with respect to a draft of a proposed bill designed to provide coordination between the Civil Service Retirement Act and the Social Security Act. The draft of reply contained some discussion of technical phases of the proposed bill and when the file was in circulation, Governor Mills attached a memorandum in which he suggested that in view of Chairman Martin's service with the Committee on Retirement Policy for Federal Personnel (the Kaplan Committee) and inasmuch as the proposed bill was allied in its purposes with that Committee's report, it might be desirable to recast the letter so as to (1) indicate concurrence with the objectives of the bill, and (2) omit discussion of the bill's technical phases. In the latter connection, he noted that the bill would have a complete examination by the Congress. Governor Mills also suggested that in view of the small number of Board employees who are members of the Civil Service Retirement System in comparison with the total membership of that System, it might be presumptuous to offer critical comments regarding any technical provisions of the draft bill.

Governor Mills' suggestions were noted and other members of the Board indicated that they would favor a letter written along the lines which he had suggested. Accordingly, it was understood that such a letter would be drafted for consideration at the meeting of the Board tomorrow.

There had been circulated to the members of the Board a memorandum dated October 21, 1955, from the Division of Bank Operations recommending that the Board establish the rates of interest on Federal Reserve notes for the third quarter of 1955 which were stated in an attached draft of telegram to the Federal Reserve Banks in order that the Banks might pay the Treasury approximately 90 per cent of their net earnings for that period as interest on such notes. It was proposed to deduct $1.5 million from the earnings of the Federal Reserve Bank of Dallas to cover approximately one-half of the allowance which would be necessary to bring the surplus of that Bank up to 100 per cent of its subscribed capital at the end of the year 1955.

Following comments on the matter, unanimous approval was given to telegrams to the Presidents of the respective Federal Reserve Banks establishing, under authority of the fourth paragraph of section 16 of the Federal Reserve Act, the rate of (see column 1 below) per cent per annum interest for the preceding three calendar months on $ (see column 2) daily average of outstanding Federal Reserve notes of the Reserve Bank in excess of gold certificates pledged with the Federal Reserve Agent as collateral security; and stating that an interest payment of $ (see column 3) should be credited to the Treasurer's General Account on October 28, 1955:

	(1)	(2)	(3)
Boston	1.3371	$997,584,149	$3,362,082.70
New York	2.1777	3,364,513,543	18,467,805.62
Philadelphia	1.5153	1,104,877,909	4,219,955.55

	(1)	(2)	(3)
Cleveland	1.5753	$1,449,969,693	$5,757,277.47
Richmond	1.1970	1,259,626,697	3,800,414.53
Atlanta	1.5284	868,773,771	3,346,868.84
Chicago	1.8362	2,766,699,660	12,804,922.75
St. Louis	1.1936	861,234,102	2,591,045.21
Minneapolis	1.5524	416,385,201	1,629,273.08
Kansas City	1.4743	786,568,249	2,922,922.09
Dallas	.9859	474,731,350	1,179,711.31
San Francisco	2.2001	1,345,918,594	7,463,734.41

Chairman Martin referred to the seminar on the effects of monetary and credit policy to be held for a group of commercial bank and insurance company economists on November 7 and 8, 1955. He said that the question had been raised whether consideration should be given to inviting members of the staff of the Treasury Department to attend the seminar since on occasions in the past the Treasury had invited members of the Board's staff to participate in meetings arranged by that Department.

The nature of the forthcoming seminar was discussed and the view was expressed that attendance on the part of outside parties might tend to inhibit frank expressions of opinion by the participating economists. For this and related reasons, it was agreed that invitations should not be extended to persons other than the economists participating in the seminar. Chairman Martin stated that he would explain informally to the Under Secretary of the Treasury for Monetary Affairs the nature of the seminar and the reasons why it was believed to be desirable to restrict attendance.

Consideration then was given to the suggestion that a seminar of the same type be arranged at an appropriate time for a group of labor economists. After an exploration of some of the questions that might arise during which members of the Board expressed the opinion that it would be preferable not to invite other groups of economists to participate, Chairman Martin inquired whether any of the members of the Board had any objection in principle to the arranging of such a seminar. When it was indicated that there would be no objection in principle, Chairman Martin suggested that Governors Mills and Balderston be requested to serve as a committee to work with Mr. Young in considering the planning of such a seminar and questions related to it.

This suggestion was approved unanimously.

Chairman Martin recalled that at the meeting on September 8, 1955, he reported having had conversations with Chairman Spence of the House Banking and Currency Committee, who requested that the Board submit by about the end of the year a report on H. R. 569, a bill introduced by Representative Patman which would provide for the transfer of functions of the Federal Open Market Committee to the Board of Governors and for the establishment of a 12-man Board. Yesterday, he said, Mr. Spence reported that he was being pressed on the matter and that he had told Mr. Patman and certain other Congressmen that he had requested a report from the Board of Governors and understood it was in preparation. The purpose of Mr. Spence's call, Chairman Martin said, was to alert him to the fact that he (Mr. Spence) had so advised the Congressmen. Chairman Martin said he told Mr. Spence that the statement was correct and that the Board was preparing a report for submission by the end of this year or in the early days of the next session of Congress, to which Mr. Spence replied that this would be helpful to the Committee because the issue was likely to become an active one. Chairman Martin concluded by saying that he made no commitment that the Board's report would be submitted before the end of the year.

In this connection, Governor Balderston inquired whether it would be desirable to take any steps looking toward the use of qualified personnel at the Federal Reserve Banks to make studies which might be useful in connection with legislative proposals such as H. R. 569. Chairman Martin responded by suggesting that discussion of such a procedure be reserved for a meeting of the full Board.

Chairman Martin then reported receipt of a letter from Dr. James J. O'Leary, of the Life Insurance Association of America, who referred to the informal meeting of representatives of that group with the Board last year to discuss monetary and credit policy and stated that the group would appreciate an opportunity to meet with the Board again. The date suggested by Mr. O'Leary was Friday, December 9.

Following a discussion of the matter, it was agreed unanimously that Chairman Martin should reply to Mr. O'Leary that the Board would be agreeable to an informal meeting on the date suggested.

Governor Balderston referred to the discussion at the meeting on September 21, 1955, regarding acoustical conditions in the Board Room and to the agreement that the advice of consultants should be secured. He said that reports had now been received from the firm of Bolt, Beranek and Newman, Inc., Cambridge, Massachusetts, and from the National Bureau of Standards and that it had been suggested that these reports be referred for review to Mr. William H. Livingston, of Philadelphia, Pennsylvania, who was active in connection with the design of the Federal Reserve Building and the solution of problems which arose during its construction. Governor Balderston said that he favored the suggestion and authorized Mr. Bethea to arrange with Mr. Livingston for such a review at a fee of $100.

The action taken by Governor Balderston was ratified unanimously.

Governor Robertson referred to the Board's letter on intermediate-term credit for agricultural purposes which was sent to the Presidents of all Federal Reserve Banks under date of October 4, 1955. He said that in a letter dated October 18, 1955, Mr. Zehner, Assistant Vice President of the Federal Reserve Bank of Boston, inquired whether there would be any objection to publishing the Board's letter in Farm Finance, a publication of the Boston Bank which has a mailing list of 8,000 made up of banks, county agents, dealers, and farm leaders. Governor Robertson pointed out that copies of the letter had been sent to parties in the Department of Agriculture and to the Agricultural Commission of the American Bankers

Association with no restrictions against release. He said that he could see no objection to the use of the letter in the Boston Bank's publication.

Governor Shepardson said that he agreed with the point of view expressed by Governor Robertson.

> Thereupon, it was agreed unanimously that the Boston Reserve Bank should be advised that the Board would have no objection to the use of the letter in the manner suggested.

Governor Robertson stated that the Federal Deposit Insurance Corporation was considering citing an insured nonmember bank in Madeira Beach, Florida, for unsound practices and had in mind referring in the citation to the fact that the bank's investment portfolio was heavily weighted with long-term Government securities in which there was a substantial depreciation in relation to the bank's capital. He recalled that the Board issued statements in 1939 and again in 1941 indicating that the Federal Reserve Banks were prepared to make advances to nonmember banks on Government obligations at par. Therefore, he said, the question had arisen whether the situation pertaining to the bank's portfolio of securities should be cited by the Federal Deposit Insurance Corporation. He added that there were understood to be other unsatisfactory aspects of the bank's condition, including inadequacy of the capital structure.

Governor Robertson said that representatives of the Federal Deposit Insurance Corporation had indicated that they would like to confer with representatives of the Board and the Office of the Comptroller of the Currency within the next two or three weeks and that in the circumstances he had asked appropriate members of the Board's staff to study the matter in the light of the Board's statements.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 24, 1955, were approved unanimously.

The meeting then adjourned.

Secretary