

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 9, 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. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Sloan, Director, Division of Examinations

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum dated October 26, 1955, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of John F. O'Donnell as an Assistant Federal Reserve Examiner in that Division, with basic salary at the rate of \$3,670 per annum and with official headquarters in Boston, Massachusetts, effective as of the date he assumes his duties.

Approved unanimously.

Memorandum dated November 1, 1955, from the Division of Personnel Administration recommending that J. N. Kiley, Technical Assistant in the Division of Bank Operations, and William S. Wait, Assistant Federal Reserve Examiner in the Division of Examinations, be authorized to attend the 1956 resident session of the Graduate School of Banking to be held at Rutgers University, New Brunswick, New Jersey, in June 1956; that they be granted the additional leave required; and that transportation and other expenses incidental to their attendance be paid on the basis outlined in the Board's letter to the Federal Reserve Banks dated February 26, 1953 (S-1489).

Approved unanimously.

11/9/55

-2-

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

In accordance with the request contained in your letter of November 1, 1955, the Board approves the designations of John Hyland and Robert F. Moreschi as special assistant examiners for the Federal Reserve Bank of New York.

Approved unanimously.

Letter to Mr. Scanlon, Chief Examiner, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of October 25, 1955, the Board approves the designation of Jerry Chauncy Bradshaw as a special assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the designation is made effective.

Approved unanimously.

Letter to the Board of Directors, Grand Haven State Bank, Grand Haven, Michigan, reading as follows:

Pursuant to your request, submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch on Third Avenue (U. S. Highway 16) in the village of Fruitport, Muskegon County, Michigan, by the Grand Haven State Bank, provided the branch is established within one year from the date of this letter.

Approved unanimously, for  
transmittal through the Federal  
Reserve Bank of Chicago.

Letter for the signature of the Chairman to Mr. Maxwell Abbell, Chairman, The President's Committee on Government Employment Policy, Washington, D. C., reading as follows:

This is in reply to your letter of October 3, 1955, regarding alleged discriminatory practices at the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

11/9/55

-3-

Mr. C. E. Earhart, President of the Federal Reserve Bank of San Francisco, was asked to look into this matter and report his findings. You will be interested I think in the reply which was received, as follows:

"The Federal Reserve Bank of San Francisco has a policy of non-discrimination in connection with its employment practices. The Personnel Department is charged with selecting the best qualified personnel available for the assignment for which an employment is necessary, and our staff consists at the present time of a variety of groups, including Negroes, on clerical work.

"In Los Angeles Branch, approximately 13 per cent of the staff consists of Negroes, those of Mexican descent, and Orientals. The office employs 27 Negro janitors and one colored matron, but at the present time does not have any colored clerical workers, although it has endeavored to employ colored persons for use in various clerical capacities. Up to the present time, those who have been interviewed for such positions have not, for one reason or another, met the requirements.

"The Branch will continue efforts to find colored people with the necessary qualifications, and we are confident that those efforts will be successful."

Approved unanimously, with  
a copy to Mr. Earhart, President,  
Federal Reserve Bank of San Francisco.

Memorandum dated October 26, 1955, from Mr. Carpenter, Secretary of the Board, recommending the destruction, either on an outright basis or after specified retention periods, of certain material in the Board's files not regarded as essential record material.

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Olin D. Johnston, Chairman, Subcommittee on Government Employees' Security

11/9/55

-4-

Program, Senate Committee on Post Office and Civil Service, United States Senate, Washington, D. C., reading as follows:

This is in reply to Mr. Paul E. Hadlick's letter of October 17, 1955, requesting information about the three employees separated from this agency whose files contain unfavorable information under Section 8(a) of Executive Order 10450.

All three individuals separated by resignation submitted to the Board of Governors of the Federal Reserve System. Starting and termination employment dates were:

- a. February 12, 1951 to August 28, 1954
- b. September 1, 1934 to February 1, 1954
- c. December 4, 1933 to February 1, 1954

The Retirement Division of the Civil Service Commission has informed us that the further information you requested is not available there. However, we understand from reliable sources that none of these individuals are now or have been employed in the Federal Government since leaving this Board.

Approved unanimously.

Reference was made to a memorandum from Mr. Carpenter dated November 1, 1955, which had been circulated to the members of the Board, submitting alternative drafts of a letter to Mr. Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, regarding studies of the banking structure proposed by the Conference. The drafts were prepared following the discussion at the meeting on October 27, 1955. When the drafts were in circulation, members of the Board indicated concurrence with Governor Robertson's preference for the alternative draft of letter reading as follows:

11/9/55

-5-

You will recall that at the meeting of the Board of Governors and the Presidents' Conference on October 4, 1955, following a discussion of the proposed studies of the banking structure and the arrangements suggested for carrying on the studies, Governor Balderston stated that the Board would be glad to take the matter under consideration.

The Board of Governors is in complete agreement that the studies should be made. It would like to suggest, however, that inasmuch as they were initiated by the Presidents' Conference they be conducted under the direction of the special committee appointed for the purpose so that the final report on the studies will represent the views of the Presidents' Conference.

The Board will be glad to have the members of its staff assist in any way they can in assembling and analyzing the information desired as a basis for the studies and, as previously indicated to President Williams, Governor Robertson will be glad to consult with the committee at any time.

Unanimous approval was given to the letter in the form set forth above.

Prior to this meeting, there had been started in circulation to the members of the Board a draft of letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, requesting that the Bank advise Marine Midland Corporation of Jersey City, New Jersey, that for reasons stated the Board had decided to terminate the arrangement in effect since December 1951 whereby Marine Midland Corporation advised the Board in advance of any proposed acquisition of additional banking institutions and the Board informed the Corporation whether it had any objection to the proposal on the basis of the preliminary information submitted.



11/9/55

-6-

When the draft was in process of circulation to the Board, advice was received of an understanding reached by Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, and Mr. Bayard F. Pope, Chairman of the Executive Committee of Marine Midland Corporation, to the effect that the Corporation would continue to advise the Reserve Bank concerning proposed acquisitions of stock of additional banks but would refrain from asking for advance notice as to whether there would be any objection to the acquisition. Accordingly, the draft was rewritten and recirculated in a form which made reference to the understanding between Messrs. Treiber and Pope. In the course of recirculation, Governor Robertson attached a memorandum to the file indicating that he preferred the original draft because he felt that the arrangement between the Reserve Bank and Marine Midland Corporation should not be a part of the Board's letter or procedure.

There being agreement with the view expressed by Governor Robertson, unanimous approval was given to a letter to Vice President Wiltse reading as follows:

Please advise Marine Midland Corporation that you have been requested to advise that Corporation as follows:

"As you know, in December 1951 the Board requested your Corporation to advise the Board in advance of any acquisition by your Corporation of stock of additional banking institutions. In addition to furnishing such requested information, your Corporation has also been advising the Board of proposed acquisitions of additional banks even though not involving acquisitions of stock. When the Board has received such

11/9/55

-7-

information it has followed the practice of advising your Corporation whether the Board had any objection to the proposed acquisition on the basis of the preliminary information presented.

"Upon reconsideration of the matter, it has been concluded that for a number of reasons this practice of the Board's giving a preliminary indication as to whether it had objection to a proposed acquisition has not been entirely satisfactory and should be discontinued. Accordingly, you are no longer requested to advise the Board in advance regarding proposed acquisitions, and the Board will not hereafter undertake to express any opinion except upon the submission of formal applications for Board approval of particular transactions where such approval is necessary under the law. Naturally, any such application should be presented to the Board in ample time to permit thorough and orderly consideration of all aspects of the matter before the Board is expected to act upon the application.

"It should be borne in mind, of course, that receipt of any information by the Board regarding proposed acquisitions, and the Board's action or nonaction on the basis thereof, would not prevent subsequent consideration of the matter by the Board for the purpose of determining, if necessary, whether the provisions of the Clayton Antitrust Act have been violated."

Messrs. Thomas, Economic Adviser to the Board, and Koch, Assistant Director, and Wood, Economist, Division of Research and Statistics, entered the room at this point.

Pursuant to the understanding at the meeting on November 4, 1955, there had been sent to the members of the Board copies of a revised draft of statement on monetary policy and real estate markets to be presented by Chairman Martin at a round-table discussion of the residential construction and mortgage financing field to be held by the Housing Subcommittee

11/9/55

-8-

of the Senate Banking and Currency Committee on November 28 and 29, 1955.

Chairman Martin read comments with respect to the earlier draft of statement which had been handed to him by Governor Balderston and there was a discussion of them. It was pointed out that the revised draft, which Governor Balderston had not seen, incorporated an approach which was more in line with some of his suggestions.

The revised draft was then discussed and a number of suggestions were made. The draft was then referred to Mr. Thurston for revision in the light of the discussion prior to further consideration by the Board.

In this connection, Mr. Koch reported receipt of a telephone call from a staff member of the Council of Economic Advisers who indicated that the Chairman of the Council would be interested in having an advance copy of the statement to be presented by Chairman Martin. It was agreed that there would be no objection to transmitting a copy of the statement when it was in a form agreed upon by the Board.

Messrs. Thurston, Koch, and Wood then withdrew from the meeting.

Reference was made to a memorandum from Governor Mills dated November 8, 1955, copies of which had been sent to the members of the Board, regarding advice from the American Bankers Association that the Executive Committees of the National and State Bank Divisions were scheduled to meet in Washington on January 31 and February 1, 1956, that the Association was planning a dinner or some similar event on the evening of January 31 to which members of the Board and its staff would be invited,



11/9/55

-9-

and that the Executive Committees would welcome the opportunity of meeting with the Board on Wednesday, February 1. The memorandum suggested that an invitation be extended to the Executive Committees to have luncheon with the Board in the Board's dining rooms on February 1, followed by a discussion meeting.

The arrangements suggested in Governor Mills' memorandum were approved unanimously.

Chairman Martin reported having been informed by the Under Secretary of the Treasury for Monetary Affairs that the committee of investment bankers with which the Treasury confers on financing would be in Washington on November 22, 1955, and that the group would appreciate an opportunity to visit the Board's offices at 11:30 a.m. He suggested that an invitation be extended and that the program consist of an economic presentation by a member or members of the research staff.

This suggestion was approved unanimously.

Governor Mills recalled that in several cases recently involving applications by State member banks for authority to establish branches or requests from the Comptroller of the Currency for recommendations regarding applications to organize new national banks, the Legal Division had attached to the respective files memoranda questioning the legal sufficiency of a proposed adverse action or recommendation stated in terms that there appeared to be no sufficient or urgent need for the additional

11/9/55

-10-

banking facilities. He expressed some concern that where unfavorable action was taken by the Board in such instances, the record might seem to indicate that the action was taken despite the opinion of counsel.

Following a discussion concerning the responsibilities of the Board as a bank supervisory agency, during which it was agreed that no steps should be taken which would restrict the Legal Division from expressing its views to the Board regarding legal questions in such matters, it was understood that Mr. Vest would review the language used in the memoranda referred to by Governor Mills with a view to seeing whether some alternative procedure might be followed which would meet satisfactorily the points raised at this meeting.

Governor Robertson stated that he had raised with the Secretary the question of the necessity for including in the Board's minutes a statement regarding approval of the minutes of previous meetings.

Mr. Carpenter said that the matter had been referred to the Legal Division for review from the standpoint of legal requirements, that the preliminary reaction was that as long as there was a record of some kind indicating that the Board members had seen and approved the minutes, there was no need for entering a formal approval in the minutes, but that the Legal Division had not yet completed its study.

During a discussion of the question, several suggestions for possible alternative procedures were made but no conclusions were reached, it being understood that the matter would come before the Board for

11/9/55

-11-

further consideration after the staff had completed its study and had discussed the matter with Governor Balderston.

Governor Vardaman said that the discussion suggested the desirability of a general review by the Board of practices relating to the preparation and approval of the minutes, and Chairman Martin suggested that other administrative procedures now in effect at the Board also be reviewed. He requested that the Secretary discuss with Governor Balderston arrangements that should be made for such a review.

Governor Robertson said he continued to feel that the Federal Reserve Bank discount rate should be increased, that in fact he considered an increase in the rate almost a necessity. He said that such a move at this time would have a real impact, that business activity needed to be dampened down, and that he did not think this was being accomplished adequately through open market operations. He also said that a review of the structure of money rates would seem to justify an increase in the discount rate, that he could think of no bad reactions from an increase, and that he could think of many good ones. It would be a much clearer indication of current objectives of Federal Reserve credit policy, than any other actions being taken by the System. He recognized the difficulties involved in the fact that under the law the Federal Reserve Banks are expected to initiate a change in rate. He feared, however, that if the System waited until the possibility of a rate increase had been discounted in business and financial circles, nothing would be gained by subsequent action.

11/9/55

-12-

Governor Robertson also suggested the advantages of a more flexible use of the discount rate as an instrument of Federal Reserve credit policy. Turning to the recent increase in the volume of member bank borrowing at the Federal Reserve Banks, he said that the trend seemed to forecast greater use of the discount facilities. While he did not think that access to the discount window should be denied, he felt that it would be desirable to make the use of the facilities a little more costly.

During a discussion based on Governor Robertson's comments, Governor Vardaman said that he was especially interested in any weak spots that might exist in the economy and might become increasingly troublesome. He expressed himself as being concerned not so much about the rate of upward momentum of the economy as whether the level which might be reached would be sustainable.

Chairman Martin said that he thought there was a great deal of merit in the views expressed by Governor Robertson, that an argument could be made on both sides of the matter, but that the views which he stated last week had not changed substantially. He also said there was a question whether any of the Federal Reserve Banks would act to increase the rate at this time and that this posed a real question as to whether the Board should take steps to encourage the Banks to move. He again referred to the present period as one involving many uncertainties.

The discussion then turned to the responsibilities of the Board and of the Federal Reserve Banks with respect to the discount rate and



11/9/55

-13-

the suggestion was made that in order to clarify this relationship, the subject might be brought up for discussion at the meeting of the Board and the Chairmen's Conference next month.

It was also suggested that there be a review of credit and financial developments by the Board's research staff at the meeting tomorrow and there was agreement that such a review should be presented.

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

The meeting then adjourned.

Secretary's Note: Following the discussion of the discount rate at this meeting, attention was called to the fact that according to the Board's records the Boards of Directors of eight of the Federal Reserve Banks would be meeting tomorrow and the question was raised whether the Board should suggest to the Presidents of the Federal Reserve Banks that they arrange for a full discussion at the next meeting of their Board of Directors of the question whether action on the discount rate should be taken. Chairman Martin discussed this suggestion with the other members of the Board except Governor Balderston who was absent, and there was unanimous agreement that the Chairman should send the following telegram to the Presidents of all Federal Reserve Banks, which was sent this afternoon:

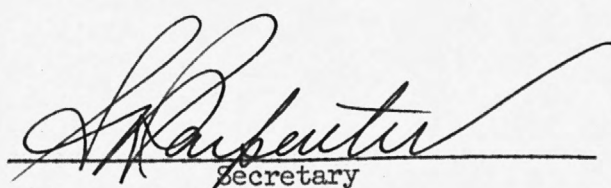
Board is continuing to discuss whether action should be taken on the discount rate. This wire is not in any sense a suggestion that your directors act to increase the

1960

11/9/55

-14-

rate, but that if you have not already done so, you arrange, in consultation with your chairman, for a full presentation at the next meeting of your directors of the current credit situation and for a full discussion of whether action should be taken.

  
Secretary