

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 30, 1955. The Board met in the Board Room at 10:15 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Leonard, Director, Division of  
 Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Johnson, Controller, and Director,  
 Division of Personnel Administration

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 November 10, 1955, from Mr. Bethea, Director, Division of Administrative Services, recommending that Anna Mary Riden, Clerk in that Division, be granted permission to work at a local department store on Saturdays.

Approved unanimously.

Letter to Mr. Davis, First Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

Reference is made to your letter of November 18, 1955, transmitting the request of the Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, for an extension of time within which to establish a branch in Swatara Township, Dauphin County, Pennsylvania, at a point along Highway 322-422, approximately one-half mile east of the city limits of Harrisburg, Pennsylvania.

11/30/55

-2-

After considering all of the information available, the Board concurs in your recommendation and extends to January 23, 1956, the time within which the Dauphin Deposit Trust Company may establish the branch at the aforementioned location.

Approved unanimously.

Letter to Mr. Russell G. Smith, Executive Vice President, Bank of America National Trust and Savings Association, San Francisco, California, reading as follows:

This will acknowledge your letter of November 14, 1955, requesting permission to move the offices of your branch situated at 12, Nicholas Lane, London, England, to Walbrook House, corner Cannon Street and Walbrook Street, London.

The Board of Governors approves the proposed change in location of the branch. Please advise the Board of Governors in writing, through the Federal Reserve Bank of San Francisco, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

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

Letter to Mr. William Leighton, 43 West 74th Street, New York, New York, reading as follows:

Receipt is acknowledged of your letter of October 10, 1955 and the enclosed form of "Notice of Proposed Rule Making" under section 4(d) of the Administrative Procedure Act.

As explained in the Board's letter to you of September 27, 1955, the Board has received no application from or on behalf of American Express Company to organize under section 25(a) of the Federal Reserve Act and knows of no provision of law that would authorize it to require American Express Company to make such application. Similarly, as

11/30/55

-3-

explained in that letter, the Board knows of no statute authorizing it to order American Express Company to desist from selling its travelers checks.

In the circumstances the Board is not in a position to issue a Notice of Proposed Rule Making such as you suggest.

Along with the foregoing draft of letter to Mr. Leighton, there had been circulated a draft of letter proposed to be sent to the American Express Company which would enclose copies of correspondence between the Board and Mr. Leighton, including a copy of the "petition" which Mr. Leighton filed with the Board under date of September 6, 1955, and which was referred to in the Board's letter to Mr. Leighton dated September 27, 1955.

Governor Mills inquired whether the communications between the Board and Mr. Leighton should be disclosed to the American Express Company or other parties, at least at the present time. In response, Mr. Vest reviewed the nature of the communications received from Mr. Leighton and said that inasmuch as the American Express Company was involved in the matter and had not been informed of current developments, it seemed to the Legal Division that the Company should be advised. He said that Mr. Leighton's "petition" appeared to contemplate an administrative proceeding under which the American Express Company would be named as respondent and that the most recent correspondence from Mr. Leighton indicated the possibility of court proceedings against the Board of Governors.

11/30/55

-4-

In the event court proceedings were instituted, the American Express Company would become aware of the situation. He felt, however, that the question whether the American Express Company was advised of developments at this point was relatively unimportant.

Following a further discussion, the letter to Mr. Leighton was approved unanimously, but it was agreed not to communicate with the American Express Company at this time.

Pursuant to the understanding at the meeting yesterday, there had been prepared a draft of letter to Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, replying to his letter of November 21, 1955, to Chairman Martin regarding a proposal by the directors of the Boston Bank that the Bank contribute to the United Community Services of Greater Boston.

Copies of the draft were distributed at this meeting and several suggestions for minor changes were made. Consideration also was given to whether copies of the letter should be sent to the other Federal Reserve Banks and whether the subject of Reserve Bank contributions should be raised for discussion at forthcoming meetings of the Chairmen's Conference and the Presidents' Conference. Since substantially the same question as presented by Chairman Hodgkinson's letter had been raised on numerous occasions in the past and the proposed reply would reaffirm the position previously taken by the Board, there was agreement with a suggestion that it seemed unnecessary to send copies to the other Federal Reserve Banks



11/30/55

-5-

or to request further discussion of the subject at this time.

Thereupon, unanimous approval was given to a letter for the signature of Chairman Martin to Chairman Hodgkinson reading as follows:

Your letter of November 21, 1955 regarding a proposal by the directors of your Bank that it contribute to the United Community Services of Greater Boston has been brought to the Board's attention. The question whether Federal Reserve Banks should be authorized to make contributions to such organizations as Community Funds and the Red Cross was thoroughly reviewed by the Board in 1952 and, as you indicate, its letter to all Federal Reserve Banks dated March 21, 1952 (S-1439, FRLS-3187) stated why the Board then reaffirmed the position long held regarding such contributions. A copy of that letter is attached for your convenience.

Upon receipt of your letter the Board again considered this question against the background of information developed since the early days of the System, including the comments made in your letter. While the Board appreciates the problem that is presented to the Federal Reserve Banks upon occasion by declining to make contributions to funds of this sort, it has found no facts that would justify a departure from the position that has been taken since the beginning of the System.

It is noted that in the discussion of this subject by your directors it was suggested that "unlike governmental agencies which cannot contribute because they get their money from taxes, we are a private corporation with stockholders, and the directors represent the stockholders." While it is true that Federal Reserve Banks are not subject to many laws and restrictions applicable to Government agencies, Reserve Banks are instrumentalities of the Government created by Congress for the performance of important public functions. Likewise, the ownership of Reserve Bank stock does not carry with it the usual attributes of control customary with stockholders of private corporations. In view of the public nature of the Reserve Banks and the governmental character of

11/30/55

-6-

their functions, the Board feels that questions as to the propriety or legality of contributions by them may not properly be considered against the background of what is permissible for private corporations.

Your letter also suggests that while 90 per cent of Federal Reserve Bank earnings are turned over to the Treasury, it might be argued that contributions of private corporations to community funds were also to a major extent being paid out of funds that otherwise would go to the Treasury. As you know, the Federal Reserve Banks derive their earnings through the performance of what is essentially a governmental function and in no sense through the initiative of private enterprise. Accordingly, the Board believes that it would be difficult to make a case for directing the earnings of the Banks to such uses, regardless whether the funds come from current earnings or from surplus.

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

Under date of November 4, 1955, the Division of Bank Operations submitted to the Board, in accordance with the procedure agreed upon at the meeting on September 15, 1955, a memorandum summarizing the significant features of the budgets proposed by the Federal Reserve Banks for 1956. Also submitted were separate memoranda analyzing the budgets for those functions in which the scope of activities and the size of the budget are largely determined by policy decisions, i.e., the personnel function, the management development function, and the research, public information and bank relations function, these memoranda having been prepared by the offices of the Board having staff responsibilities in connection with such activities. An accompanying volume contained digests

11/30/55

-7-

of the budget proposals of each Federal Reserve Bank and branch, supported by tabular data. Subsequently, a committee of Board members consisting of Governors Balderston, Szymczak, and Shepardson was requested to review the budgets and make recommendations regarding the action that might be taken with respect to them.

Governor Balderston stated that the committee would like to report today on its review of the budgets and to have a discussion in executive session of proposed salaries for Reserve Bank officers for 1956. It was his suggestion that final action on the budgets and on the proposed officers' salaries be deferred until such time as the Board had before it the letters proposed to be sent to the respective Federal Reserve Banks.

He then called upon Mr. Leonard, who reviewed fully the budget information submitted to the Board in the documents referred to above.

Governor Balderston said that the committee noted the continuing trend toward larger expenditures throughout the System, that it was concerned about the over-all increase in the 1956 budgets, but that a very substantial part of the increase was traceable to salary structure adjustments. He reported that the committee also gave consideration to the budgets for purchases of furniture and equipment and the reasons for the increase above the 1955 figures. He said that the committee considered possible ways of asking the Banks, perhaps individually, to curb their

11/30/55

-8-

expenditures, but on the other hand it was sensitive to the fact that the Board would not want to interfere unduly with operating decisions and it recognized that the budgets are to be used as an adjunct to the general theory of decentralization of responsibility. The committee felt that the Board would not want to change specific figures unless the reasons for doing so were very clear, and in all the circumstances the committee recommended acceptance of the budgets with certain reservations set forth in a memorandum dated November 30, 1955, copies of which he distributed to the members of the Board.

With regard to a comment by Governor Vardaman that periodic expenditures for furniture and equipment should be viewed in a somewhat different light from operating expenditures, Governor Balderston said that the furniture and equipment expenditures tended to distort budget comparisons but that the alternative of capitalizing all such expenditures involved accounting procedures which probably were not warranted in the case of Federal Reserve Banks.

Governor Balderston then discussed the paragraph proposed for use in letters to the Reserve Banks of Boston, Chicago, Minneapolis, and Dallas, where it had been noted that the number of employees budgeted was considerably in excess of the number actually employed. He also discussed the paragraph proposed for use in the letter to the Kansas City Bank regarding repairs, depreciation, furnishings, and other expenses



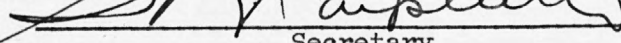
11/30/55

-9-

incident to the renovation program at the head office and the building programs at Denver and Omaha.

It was suggested that the members of the Board be given an opportunity to study the Reserve Bank budgets in the light of the discussion at this meeting and the memorandum from the committee of Board members, and that there then be further consideration of the subject by the Board. There was agreement with this suggestion, and the Board went into executive session for the purpose of considering proposed salaries for Reserve Bank officers.

The meeting then adjourned.

  
Secretary