

Minutes for February 3, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u><i>MM</i></u>	_____
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Vardaman	x <u><i>MS</i></u>	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u><i>R</i></u>	_____
Gov. Balderston	x <u><i>CCB</i></u>	_____
Gov. Shepardson	x <u><i>CSA</i></u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 3, 1956. The Board met in the Board Room at 10:00 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. Fauver, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Hackley, Assistant General Counsel
 Mr. Hostrup, Assistant 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 stated:

Memorandum dated January 25, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Frank de Leeuw as Economist in that Division, with basic salary at the rate of \$5,440 per annum, effective as of the date on which he assumes his duties.

Approved unanimously.

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Memorandum dated January 24, 1956, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Jerry B. Riley as Assistant Federal Reserve Examiner in that Division, with basic salary at the rate of \$5,440 per annum, effective as of the date on which he assumes his duties.

Approved unanimously, together with the recommendation contained in a second memorandum from Mr. Sloan, also dated January 24, 1956, that the total number of positions on the field examining staff of the Division of Examinations be increased from 37 to 40 by increasing the total number of Senior Federal Reserve Examiner, Federal Reserve Examiner, and Assistant Federal Reserve Examiner positions from 34 to 37.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated:

Effective February 12, 1956

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Arthur L. Broida, Economist		\$9,420	\$9,635
Lorman C. Trueblood, Economist		10,535	10,750
Charles A. Yager, Economist		6,390	6,605
	<u>Bank Operations</u>		
Dorothy L. Duvall, Statistical Clerk		3,670	3,755
	<u>Administrative Services</u>		
Ethelyn M. Palmer, Secretary		4,345	4,480
James E. Love, Laborer		3,170	3,255
William R. Smith, Laborer		3,170	3,255

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<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
E. Betz Poeppel, Chief, Records Section		\$7,465	\$7,680

Approved unanimously.

Memorandum dated January 25, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending that Grace Warren be transferred from the position of Stenographer in the Division of Administrative Services to the position of Clerk-Stenographer in the Division of Bank Operations, with no change in her present basic salary at the rate of \$3,175 per annum, effective as of the date on which she assumes her new duties.

Approved unanimously.

Memorandum dated January 26, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the continuance during 1956 of the appointments on a temporary contractual basis of Messrs. Alexander Sachs, independent business consultant, Jacob Viner, of Princeton University, and Edward S. Shaw, of Stanford University, as consultants for purposes of the Exploratory Committee on Longer-term Financial Problems, with compensation at the rate of \$50 per day for each day worked for the Board, either in Washington, D. C., or outside the city, plus a per diem in lieu of subsistence for the amount of time spent in a travel status in connection with their assignments and transportation in accordance with the Board's travel regulations, and with the understanding that for purposes of travel the headquarters of each consultant would be either his home or place of business.

Approved unanimously.

Memorandum dated January 24, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending continuance during 1956 of the appointment on a temporary contractual basis of Dr. Ruth P. Mack, economist and member of the staff of the National Bureau of Economic Research, as a consultant for work on the department store trade statistics studies being conducted by the System Subcommittee on Department Store Statistics, with compensation at the rate of \$50 per day for each day worked for the Board, either in Washington, D. C., or outside the city, plus a per diem in lieu of subsistence for the amount of time spent in a travel status in connection with her assignments and transportation in

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accordance with the Board's travel regulations, and with the understanding that for purposes of travel Dr. Mack's headquarters would be either New York, New York, or Thetford, Vermont.

Approved unanimously.

Memorandum dated January 27, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that an attached letter be sent to Grace E. Cormany setting forth the terms and conditions under which she would be permitted to operate the beauty shop in the Federal Reserve Building.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of January 24, 1956, the Board approves the reemployment of Donald Claar Hoenstine as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. Koppang, First Vice President, Federal Reserve Bank of Kansas City, reading as follows:

In view of the circumstances described in your letter of January 24, 1956, the Board of Governors approves the payment of salary to Mr. Wilbur T. Billington, Industrial Economist, for the period ending December 31, 1956, at the rate of \$9,300 per annum which is \$660 below the minimum established for the grade in which his position is classified.

Approved unanimously.

Letters to the Board of Directors, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of

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a branch on the north side of U. S. Highway No. 1, about three-fourths of a mile north of Raleigh, North Carolina, at the intersection of a road leading to Raleigh's Farmers Market, by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date the branch is established.

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, with City Industrial and Savings Bank, Greensboro, North Carolina, and approves the establishment by the continuing bank of branches at the present location of City Industrial and Savings Bank at Gaston and Greene Streets, and at the corner of Greene and West Sycamore Streets, Greensboro, North Carolina, provided (a) the merger is carried out substantially in accordance with the merger agreement between the parties, a copy of which was submitted to the Reserve Bank; (b) the merger and the establishment of the branch at the present location of City Industrial and Savings Bank is effected within six months of the date of this letter; and (c) the branch at the corner of Greene and West Sycamore Streets is established within one year from the date of this letter.

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

Letter to the Board of Directors, American State Bank, Lubbock, Texas, reading as follows:

With respect to your letter of January 3, 1956, to the Federal Reserve Bank of Dallas, the Board of Governors approves the establishment of a branch directly across the street from the main banking quarters by American State Bank, Lubbock, Texas.

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

Messrs. Johnson and Hostrup then withdrew from the meeting.

There were presented telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

Boston	January 30
Atlanta	January 30
St. Louis	January 30
San Francisco	February 1
New York	February 2
Philadelphia	February 2

Approved unanimously.

Reference was made to a draft of letter to Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council, which had been circulated to the members of the Board, requesting that the members of the Council express their views at the next meeting of the Council with the Board concerning the proposal to submit to the Congress an amendment to section 25 of the Federal Reserve Act which would permit the Board to issue regulations expanding the powers of foreign branches of American banks beyond those permitted by present law.

Governor Robertson suggested that the draft of letter be revised to delete the portion concerning discussion of the matter with the Presidents of the Federal Reserve Banks at the joint meeting of the Board and the Presidents on January 25, 1956.

There being agreement with this suggestion, unanimous

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approval was given to a letter to Mr. Korsvik in the following form:

For a number of months the Board of Governors has been studying changes that might be made in its regulations relating to the operations of corporations organized pursuant to sections 25 and 25(a) of the Federal Reserve Act. A report of a special System committee appointed to study this matter has suggested, among other things, that section 25 of the Federal Reserve Act be amended to permit the Board of Governors to issue regulations which may authorize foreign branches of American banks to exercise such further powers beyond those permitted by present law as may be usual in connection with the transaction of the business of banking in the places where foreign branches are located.

At a recent meeting of the Board the staff was requested to draft a memorandum which could be used to submit such an amendment to the Congress and which would discuss the proposal and the reasons therefor. Attached are 15 copies of the draft of statement prepared in response to the Board's request.

It will be appreciated very much by the Board if the members of the Council will consider this matter in the light of the information contained in the draft of statement and be prepared to express their views with respect to it at the meeting of the Council with the Board in February.

There had been circulated to the members of the Board a draft of letter for the signature of Chairman Martin to Mr. Reese H. Taylor, President of the Union Oil Company of California, Los Angeles, California, and a Class B director of the Federal Reserve Bank of San Francisco, concerning certain conditions imposed in connection with a Regulation V loan by Bank of America National Trust and Savings Association, San Francisco, California, to Pacific Airmotive Corporation, a substantial stock interest

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in which is owned by Union Oil Company of California. In a letter addressed to Chairman Martin under date of January 13, 1956, Mr. Taylor commented adversely on a recommendation made by the Reserve Bank's Los Angeles Branch regarding subordination to the V-loan of a term loan made to Pacific Airmotive Corporation by the Union Oil Company. The proposed reply would review the history of the case and point out that the recommendation of the Los Angeles Branch was in accord with the views of the guaranteeing agency.

Governor Vardaman stated that he regarded the proposed letter as a satisfactory response. In view, however, of Mr. Taylor's service as a Federal Reserve Bank director, he suggested that it might be desirable for Chairman Martin to discuss the matter with Mr. Taylor by telephone before the letter was sent.

In an ensuing discussion, during which other members of the Board indicated that they also considered the proposed letter satisfactory, Chairman Martin commented that he was going to make a trip to the West Coast for another purpose later this month and that this might afford him an opportunity to talk to Mr. Taylor personally concerning the V-loan. He suggested, therefore, that the letter not be sent at this time.

There was unanimous agreement
with Chairman Martin's suggestion.

There had been sent to the members of the Board copies of a draft of proposed letter for the signature of Chairman Martin to The Honorable

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L. H. Fountain, Chairman of the Intergovernmental Relations Subcommittee of the House Committee on Government Operations, reading as follows:

This is in reply to your letter of January 7 asking the Board's cooperation in a study your Subcommittee is making of intergovernmental relations between the United States and the States and municipalities.

The activities of the Federal Reserve System involving direct intergovernmental relationships are presently confined to bank supervision and examination. Such activities do not involve the use of appropriated funds. The questionnaire forwarded with your letter, therefore, does not seem to apply. For the purpose of informing your Subcommittee in respect to these supervisory and examination relationships, a summary of them is attached.

One other area of the Report of the Commission on Intergovernmental Relations which directly related to the activities of the Federal Reserve System is one in which primary responsibility at the Federal level seems clear-cut. On page 63 of the Commission's report it states, "The National Government is the natural manager of the monetary and credit system." This is the principal task of the Board of Governors in administering the operations of the Federal Reserve System. In its efforts to facilitate a flow of credit and money that will foster orderly economic growth and a stable dollar, the System is acutely conscious that it affects every level of governmental organization and private enterprise.

In commenting on the Commission's report in another connection, the Board stated:

"The fact that the supervision of banks in the United States is divided between the Federal and State Governments is the principal point of functional relationship of interest to the Board. However, the Commission makes no recommendations as to changes in this relationship. It is clear from statements contained in the report that its recommendations contemplate that (1) the organization of the Federal Government having to do with monetary and credit and banking problems would remain

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substantially unchanged, and (2) the Federal Government can contribute most to the solution of the fiscal problems raised in the report by promoting economic stability.

"It would appear, therefore, that while the recommendations of the Commission, if carried out, might affect the fiscal problems of the Federal Government and kinds and amounts of securities offered in the securities markets, they would not affect in any material way the functioning of the monetary system. The policy questions raised by the report and manner in which they should be decided are outside the field of the Board's responsibilities. Accordingly, the Board does not have any comments or suggestions to make with respect to the Commission's recommendations."

The letter was approved
unanimously.

Messrs. Sloan and Hackley then withdrew from the meeting.

Prior to this meeting, there had been sent to the members of the Board, pursuant to the understanding at the meeting on January 31, 1956, a revised draft of testimony to be given by Chairman Martin before the Joint Committee on the Economic Report next Tuesday, February 7. In addition to the suggested principal statement, the material included drafts of statements which might be made by the Chairman in the event of questions concerning (1) authority for the regulation of consumer credit, and (2) a recommendation in the President's Economic Report regarding amendment of certain current provisions of law relating to operations of the Federal National Mortgage Association.

Mr. Thurston stated that Governor Vardaman had furnished a number of suggestions for changes in the main statement which would be taken into

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consideration in preparing another revised draft.

At the conclusion of a further discussion, which was concerned principally with the language of the provisional statement on consumer credit controls, it was understood that a revised draft of this statement also would be prepared for distribution to the members of the Board prior to consideration at the meeting on Monday, February 6.

Messrs. Thurston, Riefler, Thomas, and Young then withdrew from the meeting.

The following draft of letter for the signature of Chairman Martin to The Honorable Brent Spence, Chairman of the House Committee on Banking and Currency, had been circulated to the members of the Board prior to this meeting:

This is in response to your telephone request for the Board's views on the bills S. 1188, to amend Section 5240 of the Revised Statutes, relating to the examination of national banks by the Comptroller of the Currency, and S. 1736, to amend section 5146 of the Revised Statutes with respect to the place of residence of directors of national banks.

Enclosed are copies of the Board's reports made last year on these bills to the Senate Banking and Currency Committee. The Board has not changed its views with respect to these bills.

Governor Robertson noted that the Board's letter of April 25, 1955, to the Chairman of the Senate Banking and Currency Committee stated that the Board favored the enactment of S. 1188. While it was his original preference that that letter be phrased in terms that the Board would

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have no objection to the enactment of the legislation, he said that he would take no exception to the proposed letter to Chairman Spence in view of the wording of the previous letter.

Thereupon, the letter to Chairman Spence was approved unanimously.

Governor Robertson stated that yesterday he received a telephone call from Mr. Joseph H. Coleman, President of First Bank Stock Corporation, St. Paul, Minnesota, who said he wished to advise that early next week the Corporation would take over six banks on an exchange of stock basis. The banks to be taken over included the Northern Minnesota National Bank of Duluth, the Duluth National Bank, The First National Bank of Virginia, The First National Bank of Hibbing, and The Worthington National Bank, all in Minnesota, and The Batavian National Bank of La Crosse, Wisconsin. He said that the holding company apparently was expanding in view of the possible passage of bank holding company legislation, that the intent of the call was to make a record that the Board had been given advance information, that there seemed to be no action which the Board should take, and that he had requested the Division of Examinations to put in the files a memorandum of the telephone conversation and the circumstances involved.

The members of the staff then withdrew and the Board went into executive session.

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The Secretary later was informed that during the executive session unanimous approval was given to the following:

1. A letter for the signature of Mr. Sprecher, Assistant Director, Division of Personnel Administration, to Mr. Robert L. Sammons, 55 Washington Street, Santurce, Puerto Rico, reading as follows:

In connection with your application for employment with the Board of Governors as Chief of the Latin American Section of the Division of International Finance, we would like to have you come to Washington for a day or two at our expense for further interviews with Members of the Board and its staff. The date you would like to make the trip could, of course, suit your own convenience.

The Board of Governors will, of course, pay your transportation and a per diem allowance in lieu of subsistence equal to \$12. For your information, the travel regulations provide for first class rail passage, together with Pullman accommodations not in excess of a roomette, or for travel by air. Additional fare for travel on extra fare trains and planes is not allowable, and you should take advantage of any saving available through the purchase of round-trip tickets. Receipts for Pullman accommodations or airplane space should be retained and submitted in support of your reimbursement claim. We assume that you would probably travel by plane.

We would appreciate it if you will let us know a convenient time for you, giving us the approximate time you would arrive in Washington and the time of your departure for your return trip, so that we may make suitable arrangements for interviews and also for hotel reservations if you desire.

We are looking forward to meeting and talking with you.

2. The request contained in a memorandum dated January 27, 1956, from Mr. Johnson, Personnel Security Officer,

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that a full-field investigation be authorized for Mr. Benner, Assistant Director, Division of Examinations, in order to clear him for access to classified security information.

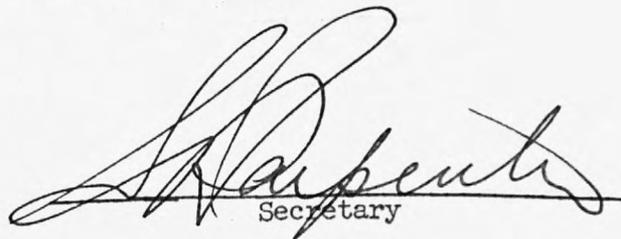
3. A letter for the signature of the Chairman to Mr. Harold W. Dodds, President, Princeton University, Princeton, New Jersey, reading as follows:

The Board of Governors is gratified to learn from your letter of January 19, 1956, that Arthur B. Hersey, a member of the Board's staff, has been provisionally recommended for a Rockefeller Public Service Award.

In reply to your question concerning our retention of Mr. Hersey on a salary basis for the duration of his proposed project, I have taken up the matter with the Board of Governors, and they are prepared to carry Mr. Hersey's salary during the period of the award.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated January 24, 1956, from Mr. Sloan, Director, Division of Examinations, Governor Balderston today approved on behalf of the Board the appointment of Cynthia C. Jester as Clerk-Typist in that Division, with basic salary at the rate of \$3,260 per annum, effective as of the date on which she assumes her duties.


Secretary