

Minutes for March 19, 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>(M)</u>	<u>MS</u>
Gov. Szymczak	<u>(S)</u>	x <u>MS</u>
Gov. Vardaman	x <u>(V)</u>	
Gov. Mills	x <u>(M)</u>	
Gov. Robertson	x <u>R</u>	
Gov. Balderston	x <u>CCB</u>	
Gov. Shepardson	x <u>BS</u>	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 19, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Vest, General Counsel

Messrs. Young, Noyes, Garfield, and Williams, Miss Burr, and Messrs. Koch, Dembitz, Brill, Eckert, Gehman, Jones, Miller, Weiner, Trueblood, Wernick, and Wood, of the Division of Research and Statistics

Members of the Research Division presented a review of economic developments at the conclusion of which Chairman Martin was called from the meeting on other business.

Mr. Noyes then summarized reports from the Federal Reserve Banks concerning a spot check of business developments which the Banks made in their respective districts at the request of the Board's staff. The reports from all of the districts except Richmond and Kansas City were characterized by a "bullish" tone. In general, there appeared to be a continuation of good conditions, a prevalence of optimism and an expectation

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of a stable or gradually rising level of business, and a willingness to go ahead with plans for expansion of plant and equipment. Weakness in the agricultural situation was emphasized by the Kansas City and Richmond Districts, whereas such emphasis was not found in the reports of the other Banks.

Messrs. Thomas, Jones, and Miller then withdrew from the meeting. Mr. Garfield distributed charts covering the so-called "leading" series of business indicators (those which are said to anticipate changes in the course of business conditions by a varying number of months), together with charts for four of the "roughly coincident" series (those which tend to move concurrently with changes in business conditions). He described the interpretation given to the "leading" series by certain business analysts, summarized the degree to which an analysis of this kind had been accurate at times in the past, and commented on the difficulties involved in making a forecast on this basis at various stages of the business cycle.

All of the members of the staff except Messrs. Kenyon, Fauver, Riefler, and Vest then withdrew from the meeting, and Mr. Hexter, Assistant General Counsel, entered the room.

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:

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Memoranda from appropriate individuals concerned recommending actions with respect to the Board's staff as follows:

Appointment, effective upon the date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
Walter A. Walter, Assistant Federal Reserve Examiner	Examinations	\$4,930	

Salary increases, effective March 25, 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>			
Joan I. Darby, Clerk		\$3,260	\$3,345
Ann M. Van Eckhardt, Clerk-Typist		3,260	3,345
<u>Bank Operations</u>			
Lee W. Langham, Technical Assistant		6,605	6,820
Barbara Pessagno, Statistical Clerk		3,260	3,345
<u>Administrative Services</u>			
Harry E. Kern, Supervisor, Procurement Section		5,980	6,115
Donald B. Fitzhugh, Tabulation Planner		4,660	4,795
Ruth E. Ellis, Cafeteria Helper		1,450	1,488
Evelyn M. Lewis, Elevator Operator		3,050	3,125
Charles D. Lindamood, Principal Operating Engineer		5,270	5,675

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Transfer

Margaret N. Muehlhaus, from the position of Secretary to Mr. Thurston to the position of Secretary to Chairman Martin, with an increase in her basic annual salary from \$5,485 to \$6,560, effective upon approval by the Board.

Approved unanimously.

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

The Board of Governors approves the increase in the minimum of Grade 1 in the employee salary structure for the Buffalo Branch effective March 1, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 8. The Board's records are being amended to reflect this change in the grade ranges as follows:

	<u>Buffalo Branch</u>	
<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,080	\$2,700

Approved unanimously.

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

The Board of Governors approves the increase in the minimums of Grade 1 in the employee salary structures for the Federal Reserve Bank of Cleveland and its Cincinnati and Pittsburgh Branches effective March 1, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 8. The Board's records are being amended to reflect these changes in grade ranges as follows:

<u>Grade</u>	<u>Cleveland-Pittsburgh Branch</u>		<u>Cincinnati Branch</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
1	\$2,080	\$2,574	\$2,080	\$2,574

Approved unanimously.

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Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

The Board of Governors approves the increase in the minimum of Grade 1 in the employee salary structure for the Federal Reserve Bank of Richmond and its Baltimore and Charlotte Branches, effective March 8, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 8. The Board's records are being amended to reflect this change in the grade ranges as follows:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,100	\$2,520

Approved unanimously.

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

The Board of Governors approves the increase in the minimums of Grade 1 in the employee salary structures for the Federal Reserve Bank of Atlanta and its Branches effective March 9, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 9. The Board's records are being amended to reflect these changes in grade ranges as follows:

<u>Grade</u>	<u>Atlanta - Birmingham, Nashville, and New Orleans Branches</u>		<u>Jacksonville Branch</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
1	\$2,100	\$2,640	\$2,100	\$2,640

Approved unanimously.

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

The Board of Governors approves the elimination of Grade 1 and the increase to \$2,080 in the minimums of Grades 2 and 3 of the employee salary structure for the Federal Reserve Bank of Minneapolis and the Helena Branch, effective March 1, 1956, in accordance with the action

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taken by the Board of Directors as reported in your letter of March 9. The Board's records are being amended to reflect these changes in the grade ranges as follows:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	None	None
2	\$2,080	\$2,240
3	2,080	2,590

Approved unanimously.

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

The Board of Governors approves the increase to \$2,080 in the minimums of the lower grades of the employee salary structures for the Federal Reserve Bank of Kansas City and its Branches, effective March 1, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 9. The Board's records are being amended to reflect these changes in the grade ranges as follows:

<u>Grade</u>	<u>Kansas City - Denver Branch</u>		<u>Oklahoma City Branch</u>		<u>Omaha Branch</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
1	\$2,080	\$2,520	\$2,080	\$2,400	\$2,080	\$2,400
2			2,080	2,640	2,080	2,700

Approved unanimously.

Letter to the Board of Directors, The Union and New Haven Trust Company, New Haven, Connecticut, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the absorption through purchase of assets and assumption of liabilities of The First National Bank of Wallingford, Wallingford, Connecticut, by The Union and New Haven Trust Company, New Haven, Connecticut, and approves the establishment by the latter bank of a branch in Wallingford, Connecticut, in the present quarters of The First National Bank of Wallingford, provided

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(a) the absorption is effected substantially in accordance with the Agreement submitted with your letter of February 29, 1956, (b) the banking quarters acquired from the national bank will not be placed on the books at an amount in excess of the depreciated value computed for Federal income tax purposes for the national bank, (c) securities acquired from the national bank will not be placed on the trust company's books at an amount in excess of the current market value, (d) formal approval of the State authorities is obtained, and (e) the absorption and establishment of the branch are effected within six months from the date of this letter.

It is understood that plans are under consideration to increase the capital structure of The Union and New Haven Trust Company through the sale of additional stock within one year's time.

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

Letter to The Citizens National Bank in Independence, Independence, Kansas, reading as follows:

This refers to the resolution adopted on May 10, 1955, by the board of directors of your bank, signifying its desire to surrender the authority to exercise fiduciary powers heretofore granted by the Board of Governors of the Federal Reserve System.

The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to the effect that The Citizens National Bank in Independence is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it

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any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by the Board pursuant to the provisions of section 11(k) without first applying for and obtaining a new permit to exercise such powers.

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

Letter to Mr. Galvin, Chief Examiner, Federal Reserve Bank of San Francisco, reading as follows:

Reference is made to your letter of February 8, 1956, and its enclosures, concerning a proposal of the American Trust Company, San Francisco, California, to move its Napa office a distance of about three and one-half blocks from its present location.

From the information submitted it appears that the proposal, if effected under present conditions as to location of other banks, would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served. Accordingly, the Board concurs in your view that under these circumstances its approval is not necessary.

Approved unanimously.

There had been circulated to the members of the Board a memorandum dated March 12, 1956, from Messrs. Leonard, Director, Division of Bank Operations, and Vest, General Counsel, discussing a suggestion in the recent report of the Federal Open Market Subcommittee on Defense Planning that the Board consider taking appropriate action in advance of an emergency to suspend reserve requirements of the Federal Reserve Banks, effective in the event of an emergency, in order that the Banks might

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operate effectively under a resolution adopted by the Federal Open Market Committee on March 6, 1956. This resolution authorized each Bank in its discretion to purchase Government securities for its own account in the event that, because of a war emergency, such Bank was unable to be in communication with the Open Market Committee or the Committee was unable to function. The memorandum indicated that in view of the specific language of section 11(c) of the Federal Reserve Act, the Board, if it should act in advance of an emergency, could not legally authorize a suspension of reserve requirements for more than 30 days. Also, it would be necessary for the Board to establish in advance a graduated tax on the amounts by which the reserves fell below those specified in the law. After summarizing the reasons for and against advance action, the memorandum suggested that as an alternative the Board might refer to the matter in the memorandum currently being prepared for the use of the Federal Reserve Banks as a general statement relating to the Banks' conduct in an emergency. If this alternative were followed, the memorandum could include a specific statement that in the event of a national emergency it would be expected that a Federal Reserve Bank would make such purchases of Government obligations as would be appropriate and desirable in the circumstances, even if such purchases would reduce the Bank's reserve ratio below 25 per cent. It could also provide assurance that, whenever necessary, the Board would take appropriate action suspending reserve requirements at the first opportunity.

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In commenting on the matter, Mr. Vest first reviewed the memorandum which had been circulated. He understood it to be Mr. Leonard's view that no particularly useful purpose would be served by advance action and said that consideration of the matter was suggested principally because the Federal Reserve Bank of New York had indicated that it would tend to favor such action. His own view was that very little would be accomplished by it and that the alternative procedure would be just as satisfactory.

In a further discussion, during which Mr. Leonard entered the room, Mr. Vest responded to an inquiry from Governor Shepardson by stating that any advance action would have to be very broad in nature and that the authorization to suspend reserve requirements would have to be limited to 30 days.

At the conclusion of the discussion, it was agreed unanimously not to take advance action at this time to authorize the suspension of reserve requirements of the Federal Reserve Banks in the event of an emergency, but instead to follow the alternative suggestion contained in the memorandum from Messrs. Leonard and Vest.

At this point, Mr. Cherry, Legislative Counsel, entered the room.

There had been sent to the members of the Board copies of a memorandum from Mr. Hexter dated March 16, 1956, submitting a draft of letter to Representative Wolcott, of Michigan, prepared in response to Mr. Wolcott's request for comment on a recent circular letter from Professor

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Walter Spahr concerning the current procedure by which most of the earnings of the Federal Reserve Banks are turned over to the Treasury.

Following comments by Mr. Hexter in which he said that the letter would be along the same lines as letters sent recently to other persons who had inquired on the same subject, Mr. Cherry said he understood that Representative Wolcott was not interested in making a reply to Mr. Spahr's circular letter, but that a constituent had brought Mr. Spahr's criticism to Mr. Wolcott's attention and the latter wished to be brought up to date on the subject.

Following a suggestion by Governor Vardaman for one minor change in the draft, unanimous approval was given to a letter for the signature of Chairman Martin to Representative Wolcott reading as follows:

This is in response to your letter of March 5, requesting comment on recent contentions of Professor Walter Spahr regarding the procedure under which the Federal Reserve Banks make payments to the United States Treasury as interest on Federal Reserve notes. As you indicate, this is the same subject matter that Professor Spahr discussed in articles in the Commercial and Financial Chronicle of June 19, 1947 and September 18, 1947.

These payments of interest on outstanding Federal Reserve notes are based on the fourth paragraph of section 16 of the Federal Reserve Act, which provides that each Federal Reserve Bank

"shall pay such rate of interest as may be established by the Board of Governors of the Federal Reserve System on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security."

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This provision of the law is explicit and appears to give the Board full authority to impose an interest rate on outstanding Federal Reserve notes (less the amount of gold certificates securing them) whenever it considers it advisable to do so.

Prior to enactment of the Banking Act of 1933, section 7 of the Federal Reserve Act imposed upon the Reserve Banks a franchise tax that was measured by the amount of their net earnings. That provision of section 7 was deleted by the Banking Act of 1933, but this did not in any way affect the authority of the Board of Governors to establish rates of interest under section 16, which authority has been a part of the Federal Reserve Act since 1913 although not exercised until April 1947.

It is to be noted that the franchise tax, while it was in effect, was payable by virtue of a mandatory provision of the Federal Reserve Act, whereas the authority to impose interest charges is committed by the Act to the discretion of the Board of Governors. For a number of years after the repeal of the franchise tax the net earnings of the Reserve Banks were relatively small. By 1947, however, the combined surplus of the Federal Reserve Banks substantially exceeded their subscribed capital, and in these circumstances the Board deemed it advisable to impose interest charges under section 16 that had the effect of turning over to the Treasury the greater part of earnings after providing for expenses of operation and the statutory dividend.

Prior to the initial establishment of interest rates pursuant to the above-quoted provision of section 16, the Chairman of the Board presented the matter in open hearings before the Banking and Currency Committees of the Senate and the House of Representatives. You may recall the discussion during the House Committee's 1947 hearings on direct purchases of Government securities by Federal Reserve Banks, at which you presided. Representative Patman referred to the repeal in 1933 of the franchise tax on Federal Reserve Banks, and the following discussion ensued (Hearing on H.R. 2233, 80th Cong., March 4, 1947, pp. 29-30):

"Mr. PATMAN. Well, in view of the great earnings of these 12 Federal Reserve banks, do you not think that that law should be restored, Mr. Eccles, and that provision placed back in the Federal Reserve Act?

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"Mr. ECCLES. I would like to acquaint the committee with a little of the history behind that, if I may. It was repealed in 1933 at the time the Congress took from the surplus of the Federal Reserve banks 139 million dollars for the purpose of providing part of the capital for the Federal Deposit Insurance Corporation, as it was set up. And, therefore, it was repealed.

"The idea, no doubt, being to permit the Reserve banks to earn back, in their surplus account, the amount that was taken away.

"For quite a number of years, in fact, up until the time of the war, the earnings of the Federal Reserve banks were negligible. They were just about making enough for their expenses during the greater period from 1935 to 1940, and it is only since the war, and with the war financing, that they have greatly increased their income, and have finally succeeded in building back the surplus. Therefore, this problem of Federal Reserve bank earnings only now -- certainly within the year -- really becomes the problem that Congressman Patman has referred to. The earnings of the System are such that they have recovered completely the \$139,000,000, and some in addition to that. The Federal Reserve Board has discussed this question several times, and we have felt that it was necessary to either ask the Congress to reinstate the franchise tax, which provides that nine-tenths of the earnings of the Reserve System above expense be turned in to the Treasury, or the Federal Reserve Board could impose immediately on the Federal Reserve banks, under the provisions of section 16 of the Federal Reserve Act, paragraph (4), what is known as a tax on Federal Reserve notes.

\* \* \* \* \*

"Mr. ECCLES. ...the law gives the Board authority to impose an interest charge -- and the law refers to it as an interest charge, not as a tax, so I want to correct myself in that regard -- the Federal Reserve notes, which are not covered, that is, in excess of the amount of the gold coverage.

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"Now, there is a very large amount of Federal Reserve notes which are not secured by gold certificates but are secured by Government bonds.

"Mr. PATMAN. And would be subject to that tax?

"Mr. ECCLES. And under the law we can impose an interest rate on that circulation which could immediately get into the Treasury without legislation, all of the earnings of the Federal Reserve banks. Although the authority in the original act to charge a rate of interest on note circulation that was unsecured by gold was not meant for that particular purpose, our lawyers advise us that the Board could use that authority -- I have a memorandum here from one of our lawyers on that question.

"Mr. PATMAN. In other words, Mr. Eccles, to shorten it, you have an alternative, you could really do the same thing under section 16 of the Federal Reserve Act?

"Mr. ECCLES. Immediately.

"Mr. PATMAN. And you would not have to wait for a change in the law?

"Mr. ECCLES. Well, I was going to say that the Board -- in fact, we just discussed this last week with the Reserve bank presidents at their conference, with the idea that we could immediately impose it, and if Congress at any time wanted to substitute a franchise tax for that, of course, they could do so."

The reasons for and the purpose of the Board's action are more fully explained in the enclosed announcement, which was released in the press on April 24, 1947 and published in the Federal Reserve Bulletin of May 1947. In its Annual Report to the Congress covering operations for the year 1947, the Board of Governors described the action taken in this connection and presented again the reasons for and the purpose of the action. In each Annual Report since that time, the Board has informed Congress as to the amounts paid by the Federal Reserve Banks to the Treasury as interest on Federal Reserve notes.

Please let us know if you desire additional information on any phase of this matter.

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The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from Mr. Kenyon, Assistant Secretary, dated March 19, 1956, Governor Balderston today approved on behalf of the Board the appointment of Portia R. Agadjanian as Records Clerk in the Office of the Secretary, with basic salary at the rate of \$3,840 per annum, effective as of the date she assumes her duties.

with report of the  
minutes of the meeting  
be maintained with the  
records of the Board.

to the Secretary,  
advise the Secretary of the  
were present at the meeting  
that a ballot be taken  
If you have any questions  
below to indicate what you

*Kenneth A. Kenyon*  
Assistant Secretary

Chas. Martin

Gov. Balderston

Gov. F. Adams

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Balderston