

Minutes for March 28, 1956.


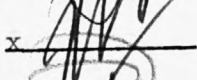
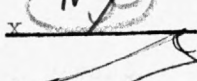
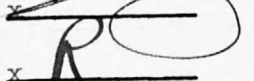
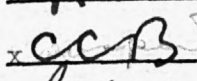
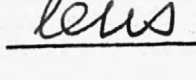
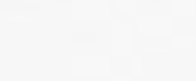
To: Members of the Board

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 	_____
Gov. Szymczak	x 	_____
Gov. Vardaman	x 	_____
Gov. Mills		_____
Gov. Robertson	x 	_____
Gov. Balderston	x 	_____
Gov. Shepardson	 → x	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 28, 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. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Nelson, Assistant Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Williams, Assistant Director, Division of Research and Statistics

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:

Letter to the Board of Directors, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch in the Terminal Building, Philadelphia International Airport, located on Industrial Highway in Philadelphia, Pennsylvania, by the Fidelity-Philadelphia Trust Company, provided the branch is established within six months from the date of this letter and the approval of the State banking authorities is effective at the time the branch is established.

3/28/56

-2-

Pursuant to Section 24A of the Federal Reserve Act, the Board of Governors also approves an additional investment of \$12,000 in banking premises by Fidelity-Philadelphia Trust Company, representing leasehold improvements in the quarters of the proposed branch.

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

Letter to Mr. Richard J. Lawless, President, Wood County National Bank, Wisconsin Rapids, Wisconsin, reading as follows:

Your letter to the Board of March 12, 1956, concerned the applicability of the prohibition in section 32 of the Banking Act of 1933, as amended, to Mr. Einar Olsen, a director of your bank, if he should become associated with The Milwaukee Company, Milwaukee, Wisconsin.

In general, section 32 prohibits an officer, director, or employee of a member bank from serving at the same time as an officer, director, or employee of any organization primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities.

You raised the question whether Mr. Olsen's contemplated interlocking relationship should be regarded as subject to an exception to the prohibition in the statute.

The part of the statute quoted in your letter permits the Board to make exceptions only "by general regulations," and the single exception which the Board has made is contained in section 2 of the regulation, a copy of which is enclosed herewith. The Board's authority to grant exceptions in particular cases was removed from the statute when it was amended in 1935. Since it is understood that The Milwaukee Company is an underwriter, distributor and dealer of stocks and bonds, it would not appear that the exception in the regulation would be applicable in Mr. Olsen's case.

From time to time particular cases have been brought to the Board's attention where it was felt that improper action

3/28/56

-3-

because of the interlocking relationship was highly improbable and that the application of section 32 resulted in some hardship. In these cases the Board has pointed out that section 32 is aimed at relationships which present the opportunity for improper action regardless of whether abuses actually exist in specific cases. In so doing, the Board has referred to the decision of the United States Supreme Court in the Agnew-Fayerweather case (329 U.S. 441) in which the Court said that "Section 32 is not concerned, of course, with any showing that the director in question has in fact been derelict in his duties or has in any way breached his fiduciary obligation to the bank. It is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships with the bank is therefore immaterial."

Approved unanimously, with
a copy to the Federal Reserve
Bank of Chicago.

Letter to Mr. Merle E. Selecman, Executive Manager, American Bankers Association, New York, New York, reading as follows:

Preliminary studies are under way with a view to conducting a survey of agricultural loans held by member and nonmember banks as of June 30, 1956. This survey would be along the same general lines as the one which was conducted in 1947, and we believe that it would be fully in line with the suggestion made by Mr. A. G. Brown in a letter which he addressed to Governor Shepardson on April 28, 1955.

As before, we would select a sample of banks which would be asked to report on a part of their outstanding loans. Participation by each bank would be voluntary rather than compulsory, but it would be necessary to obtain reports from substantially all of the banks drawn in our sample in order that the results of the survey would have statistical validity. It would therefore be of the utmost importance to have the active assistance of your Association in order to help convince the selected banks of the importance of their participation.

The cooperation of the Association on previous surveys has been of great help, we believe, in making it possible to

3/28/56

-4-

derive useful and reliable figures from them, and has been very much appreciated. Perhaps an appropriate form of assistance in this case would include the writing of a letter by the President of the Association to the Chairman of the Board of Governors here, indicating support of the project in general, to be followed later by letters from the President of the Association to each of the selected banks, explaining the importance of cooperation from that bank.

If this plan meets with your approval, it would be desirable if the first letter were sent to the Chairman of the Board of Governors here before very long. At an appropriate later date we will supply you with a list of the banks to whom the second letter should be sent and could also help with the text of the letter.

Approved unanimously.

There had been sent to the members of the Board copies of a draft of letter to the Board of Directors of The Trust Company of New Jersey, Jersey City, New Jersey, reading as follows, together with copies of other pertinent papers:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by The Trust Company of New Jersey, Jersey City, New Jersey, of a branch at 1291 Paterson Plank Road, Secaucus, New Jersey, the present location of Peoples National Bank of Secaucus, provided that (a) the merger of Peoples National Bank of Secaucus into The Trust Company of New Jersey is effected substantially in accordance with the Agreement of Merger and Consolidation dated February 14, 1956, (b) formal approval is obtained from the appropriate State authorities, and (c) the merger and establishment of the branch are accomplished within six months from the date of this letter.

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

3/28/56

-5-

Governor Balderston referred to the proposed appointment of Roland I. Robinson as a member of the Board's staff in the Division of Research and Statistics and said that it would be necessary for Mr. Robinson to give definite word of his plans to Northwestern University not later than Monday, April 2. He recommended, therefore, that the appointment be approved, with the understanding that the usual memorandum of recommendation and file on the matter would be circulated to the members of the Board as soon as possible.

Governor Balderston's recommendation was approved unanimously.

Mr. Thurston stated that the Board's Annual Report for 1955 was now in form to be printed in the absence of further comments from the members of the Board.

The Annual Report was approved unanimously, with the understanding that copies would be sent to the Speaker of the House of Representatives and the President of the Senate with letters of transmittal signed by Chairman Martin under date of April 5, 1956.

Messrs. Thurston and Nelson then withdrew from the meeting, and Mr. Riefler, Assistant to the Chairman, entered the room.

Consideration was given to a memorandum from Mr. Young dated March 23, 1956, copies of which had been sent to the members of the Board, presenting a progress report on the planning of the consumer

3/28/56

-6-

instalment credit study recently requested by the President through the Chairman of the Council of Economic Advisers. An attachment to the memorandum contained an outline of the proposed study, along with an indication of how the work would be distributed among the members of the staff. The memorandum also raised for the Board's consideration the following matters:

1. The question of utilizing Federal Reserve Bank personnel to assist the Board's staff.
2. The question whether statements should be solicited from representatives of the consumer credit industry and hearing-conferences set up with such representatives. This also involved the possibility of sending a questionnaire to a representative list of university and other experts.
3. The question whether provision should be made to obtain technical memoranda on special phases of the subject from university scholars. It was contemplated that this would involve the payment of honoraria totaling \$15,000 to \$20,000 and that, in addition, \$5,000 should be set aside for costs of travel and clerical or stenographic assistance. If this specific part of the undertaking were contracted to the National Bureau of Economic Research or the Brookings Institution, the total cost would be increased by the amount necessary to cover the usual overhead charge of such an institution.
4. The question of making a survey of automobile dealers with respect to their financing practices. It was suggested that such a survey might be conducted by Federal Reserve Bank personnel.
5. The question of making a special national consumer credit survey focusing on purchasers of new automobiles in 1954 and 1955. This survey would be made under contract by a leading survey organization. It would require quite a large sample -- probably about 6,000 -- and probably would cost in the neighborhood of \$200,000 to \$250,000.

3/28/56

-7-

The memorandum suggested that in order to expedite the progress of the study and to assure that the Board was fully informed at all times with regard to that progress, one member of the Board be designated with whom operating problems could be discussed by the staff and who, if necessary, would carry any problem to the Board. It was further suggested that this Board member be authorized to approve detailed financial arrangements with consultants and contractors in relation to such of the projects mentioned in the memorandum as might be approved by the Board.

In a statement on the matter, Mr. Young said that the staff had discussed the outline and substance of the study at some length with Chairman Burns and Mr. Saulnier, of the Council of Economic Advisers, and that in the course of the conversation the whole question of timing and completion of the study came under consideration. As the conversation progressed, he said, it became more and more clear that it would not be feasible to attempt to complete the study in time for presentation before the end of the current session of Congress. Mr. Burns expressed the hope, however, that the study might be completed by about the middle of November so that it would be available to the Council for use in preparing the President's Economic Report and to the staffs of the Congressional committees as a basis for planning their agenda for the next session of Congress.

Mr. Young then described how the study would be broken down into segments in order to expedite the work as much as possible. He also

3/28/56

-8-

indicated what steps would be necessary to integrate the various parts of the study and bring it to a conclusion this fall. The assignment of heading up the study, he said, would be almost a full-time task for one of the Assistant Directors of the Division of Research and Statistics and for one other senior member of the Division's staff.

There followed a discussion of the outline of the study during the course of which Governor Vardaman raised a number of points, principally as a matter of information. These points were commented upon by members of the staff, and agreement was reached on minor changes in the wording of some of the topics contained in the outline.

The Board then gave consideration to the major questions presented by Mr. Young's memorandum, and reasons for and against adopting the various procedures suggested in the memorandum were stated. The principal discussions were with respect to (1) contracting with the National Bureau of Economic Research or the Brookings Institution to obtain technical memoranda from economic scholars, (2) having Federal Reserve Bank personnel conduct a survey of automobile dealers, and (3) contracting for a survey of automobile purchasers.

Chairman Martin then made a statement in which he said that inasmuch as the Board had agreed to conduct the study that had been requested by the President, it should have in mind that the prestige of the Federal

3/28/56

-9-

Reserve System was involved, that the national spotlight would be on the System, and that a complete, integrated study must be made. As he saw the matter, the Board was confronted on the one hand by a major public relations problem and on the other hand by a major study problem. It was his feeling that the Board should endorse in general terms a study of the kind proposed by the staff, as set forth in Mr. Young's memorandum, and that authorization should be given for whatever cost was necessary in order to complete such a study properly and expeditiously.

Chairman Martin then stated that if the other members of the Board concurred in these views, he would suggest that Governor Mills be designated as the member of the Board with whom problems incident to carrying the study forward could be discussed by the staff and that he be authorized to approve financial, personnel, and other arrangements on behalf of the Board. This would be with the understanding that Governor Mills would bring back to the Board any questions on which he would like to have the Board's views.

There was unanimous agreement with Chairman Martin's suggestion.

In accepting the assignment, Governor Mills said that, as he understood it, the study was intended to lead to a legislative decision as to whether, in a situation other than an emergency, there were conditions

3/28/56

-10-

under which the American citizen should submit to interference in his affairs through selective credit control. Where the Board was requested to make a study against such a background, he felt that it should expose itself to every type of thought on the subject. He believed the Board should follow an academic approach but not let that approach dominate, since in the long run contacts with parties such as automobile dealers and purchasers could be more persuasive than the pure economic considerations that might be more influential in the Board's own thinking.

No disagreement was expressed with the views stated by Governor Mills.

At this point all members of the staff withdrew from the room. The meeting reconvened at 2:30 p.m. with Chairman Martin, Vice Chairman Balderston, Governors Szymczak, Vardaman, Mills, and Robertson, and Mr. Sherman present.

At Chairman Martin's request, Governor Robertson reviewed briefly conversations with Presidents Sproul, Erickson, Fulton, and Williams, members of the Presidents' Conference Special Committee on Emergency Planning, regarding procedures that might be followed in obtaining clearance for security purposes of Federal Reserve Bank personnel. Such clearance is required because, in order to carry out the responsibilities imposed upon the Board by Defense Mobilization Order I-20, some of the Reserve Bank personnel must have access to classified defense material. On the

3/28/56

-11-

basis of discussions with Reserve Bank Presidents and with the Office of Defense Mobilization, Governor Robertson recommended that the Board arrange for clearance of Reserve Bank personnel in the same manner that Board personnel are cleared, except that they would be cleared as employees of the Federal Reserve Banks doing defense planning under Defense Mobilization Order I-20. Governor Robertson outlined the steps to be taken in the procedure, which were set forth in a memorandum from him dated March 28, 1956, as follows:

(1) After ascertaining that the Civil Service Commission would make the full field investigations for such Reserve Bank personnel, the Presidents of the Reserve Banks would be asked to send names of those whom they believed should be cleared to the Board, where the names would first be reviewed by Mr. Leonard, Director of the Division of Bank Operations, as to number and type of position, under the general direction of Governor Robertson.

(2) After Mr. Leonard's review, the names would be submitted by the Board's Personnel Security Officer to the Civil Service Commission for the customary full field investigations.

(3) For individuals for whom no derogatory information was developed, the usual procedure of clearance by the Board's Personnel Security Officer would be followed.

(4) In any case where the report of investigation contained information of a derogatory nature, the report would be forwarded to the President of the Federal Reserve Bank concerned with a request for his review and recommendation.

(5) After the President's recommendation was received, the case would be submitted to the Board for determination as to whether the individual should be cleared in the light of the information received and the recommendation made by the Reserve Bank President.

3/28/56

-12-

Governor Robertson went on to say that in order to carry out this program it would be necessary that Mr. Van Devanter, Administrative Assistant in the Division of Personnel Administration, be freed from other duties in order that he might devote his full time for a period of several months to security work, which would include the processing of perhaps as many as 250 full field investigations for Reserve Bank personnel. This would necessitate the filling of 2 positions which were eliminated from the 1956 budget of the Division of Personnel Administration, namely, a clerk-stenographer at the Group K level, and a personnel technician at the Group S level. It was Governor Robertson's recommendation that if the Board approved his earlier recommendation as to the procedure for clearance of Reserve Bank personnel, it also approve the filling of these two positions in the Personnel Division.

Governor Vardaman inquired whether, in advance of the start of an investigation, the Reserve Bank Presidents would inform individuals concerned that full field investigations were to be made of them, and Governor Robertson responded that he would be glad to request the Reserve Bank Presidents to follow that procedure.

Thereupon, unanimous approval was given to the recommendations made by Governor Robertson.

The meeting then adjourned.

Assistant Secretary