Minutes for June 27, 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	x	
Gov. Robertson		x R
Gov. Balderston	x CCB	
Gov. Shepardson	x CNS	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 27, 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. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Adviser, 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:

Telegram to Mr. Irons, President, Federal Reserve Bank of Dallas, reading as follows:

> Reurlet June 14, 1956, Board approves acceptance of low bid for construction of new building for Houston Branch as recommended by your Directors, which after adjustments referred to in your letter amounts to $1,910,602. Board authorizes expenditures of approximately $2,276,000 for program as outlined in your letter.

Approved unanimously.

Letter to The Honorable, The Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

> It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing

576,480,000 Federal Reserve notes (single units) of the 1950 Series during the fiscal year ending June 30, 1957, in the amounts and denominations shown below for the various Federal Reserve Banks:

	Denominations	Number of notes	Amount
Boston	$5	9,720,000	$48,600,000
	10	14,760,000	147,600,000
	100	144,000	14,400,000
New York	5	46,440,000	232,200,000
	10	74,800,000	748,000,000
	20	20,880,000	417,600,000
	50	2,016,000	100,800,000
	100	1,440,000	144,000,000
Philadelphia	5	10,080,000	50,400,000
	10	12,240,000	122,400,000
	50	432,000	21,600,000
	100	144,000	14,400,000
Cleveland	5	4,320,000	21,600,000
	10	11,520,000	115,200,000
	20	18,640,000	372,800,000
	50	864,000	43,200,000
Richmond	5	18,000,000	90,000,000
	10	19,800,000	198,000,000
	20	20,160,000	403,200,000
	50	432,000	21,600,000
	100	720,000	72,000,000
Atlanta	5	24,840,000	124,200,000
	10	27,360,000	273,600,000
	20	9,000,000	180,000,000
Chicago	5	31,600,000	158,000,000
	10	49,680,000	496,800,000
	20	10,080,000	201,600,000
	50	1,152,000	57,600,000
St. Louis	5	17,640,000	88,200,000
	10	8,280,000	82,800,000
	20	2,880,000	57,600,000
	50	144,000	7,200,000
	100	144,000	14,400,000

	Denominations	Number of notes	Amount
Minneapolis	$5	1,800,000	$9,000,000
Kansas City	5	2,520,000	12,600,000
	10	2,160,000	21,600,000
	20	360,000	7,200,000
Dallas	5	360,000	1,800,000
San Francisco	5	26,640,000	133,200,000
	10	32,760,000	327,600,000
	20	39,240,000	784,800,000
	100	288,000	28,800,000
Totals	5	193,960,000	$969,800,000
	10	253,360,000	2,533,600,000
	20	121,240,000	2,424,800,000
	50	5,040,000	252,000,000
	100	2,880,000	288,000,000
		576,480,000	$6,468,200,000

Approved unanimously.

Mr. Leonard then withdrew from the meeting and Messrs. Thomas, Economic Adviser to the Board, and Eckert, Chief, Banking Section, Division of Research and Statistics, entered the room.

Pursuant to the understanding at the meeting of the Board on June 22, 1956, further consideration was given to a proposal submitted by certain New York City banks that the Board increase the maximum rates of interest payable on time deposits having maturity dates of less than six months.

At the request of the Board, members of the staff stated reasons which might be given for and against the proposal, along with arguments for and against changes in the maximum rates of interest payable on other time deposits and on savings deposits. Reference also was made to the provisions of the Federal Reserve Act covering the authority of the Board to limit by regulation the rate of interest which may be paid by member banks on time and savings deposits.

Mr. Eckert reported having been advised by a member of the staff of the Federal Deposit Insurance Corporation that it was not possible to say at this time whether the Board of Directors of that Corporation would be favorably disposed to changing the Corporation's regulations in line with the current proposal.

Chairman Martin stated that he had given a great deal of thought to the points made by Governor Mills at the meeting last Friday and that he felt those points deserved serious consideration. As he saw the problem, the basic question was whether the Board should adopt a more flexible policy in regulating the payment of interest on time and savings deposits. In this connection, he pointed out that there had been no change in the established maxima since 1936.

At the Chairman's request, Governor Mills reviewed the considerations which he had mentioned at the meeting last Friday. He also said that an increase in the maximum rate of interest payable on shorter-term time deposits might create a further inducement to transfer to the status of time deposits certain funds which are in effect demand deposits. Such a procedure, he pointed out, would enable the banks to extend additional credit because of the lower reserve requirement applicable to time deposits. In summary, it was Governor Mills' view that any change in the present maximum rates should be given thorough consideration by the Board and that this should include obtaining the views of the Presidents' Conference and the Federal Advisory Council.

Governor Szymczak stated that although the current proposal would be of greatest practical benefit to the larger banks, particularly in New York City, the principles involved were of interest to banks throughout the country. Therefore, he concurred in the view that it would be appropriate to obtain the comments of the Presidents' Conference and the Federal Advisory Council.

Governor Shepardson referred to the point raised during the discussion that the maximum rates of interest payable on time and savings deposits had not been changed since 1936 and said he was not sure how significant that fact was, since during most of the intervening period the rates of interest actually paid by banks on such deposits were below the permissible maxima. He observed that in such circumstances there had been no real reason for the Board to make adjustments in the maximum rates and that the prevailing situation focused attention on a problem which did not appear until recently.

Chairman Martin commented that the point made by Governor Shepardson was a good one. However, if the Board should decide to increase the maximum rates at the present time, he felt that it must bear in mind the possibility of having to make changes more frequently in the future if its statutory authority was to be used as an effective regulation of interest rates. For example, he felt that if the Board should increase the maximum rate on savings deposits to 3 per cent, it would have to give the matter further consideration from time to time in the light of money market developments.

The preliminary views expressed by Governor Vardaman were along the lines that there was a great deal to be said for a generous maximum limitation on the rates of interest permitted to be paid on time and savings deposits. The decision on rates actually paid on such deposits would then be left to the discretion of the individual banks on the basis of competitive and other factors. At the same time, he felt that the points raised by Governor Mills were deserving of consideration. He inquired whether Governor Mills would put his views in memorandum form for further study, and it was understood that this would be done.

After further discussion, Chairman Martin suggested that the Board request that the subject be placed on the agenda for the next meetings of the Federal Advisory Council and the Conference of Presidents so that the Board might have the benefit of their views. He also suggested that in the meantime it would seem desirable for Mr. Thomas and other members of the staff to give additional thought to the various aspects of the matter and submit a memorandum for use in the Board's further study of the subject.

There was unanimous agreement with the procedure suggested by Chairman Martin.

At this point all of the members of the staff except Mr. Carpenter withdrew from the meeting.

Governor Balderston stated that Mr. Leonard, Director of the Division of Bank Operations, had addressed a memorandum to the Board under date of June 22, 1956 which stated that he had advanced 26 days sick leave to Mr. Myrick, Assistant Director of the Division, which carried him to Monday, June 25, and which was the maximum permissible under the Board's leave regulations. The memorandum also stated that Mr. Myrick had been advised by his doctor to apply for disability retirement but that Mr. Leonard would recommend instead that the Board of Governors grant Mr. Myrick an advance of sick leave in the amount which, together with annual leave to his credit and annual and sick leave accruing during the interval, would carry him through January 31, 1957. The memorandum contained the further statement that Mr. Myrick had been in the Division of Bank Operations for 34½ years.

Governor Balderston stated that he favored the recommendation and, in accordance with the authority previously granted by the Board, he had approved the recommendation on June 25 subject to concurrence by the Board at this meeting. That action was taken, he said, with the thought that if the Board did not favor the proposed extension of sick leave, the approval could be reversed. It was pointed out that the principal reason for the recommendation was that there was a slight possibility that Mr. Myrick would recover to such an extent that he could assume his duties and that if he were continued on the Board's payroll until after the first of the year he would be entitled to any additional retirement benefits provided by legislation now pending before the Congress.

Governor Vardaman inquired whether the Board had legal authority to take the recommended action and it was stated that the action could be taken under the authority of section 10 of the Federal Reserve Act. He suggested that the Legal Division be asked to pass on the matter and that a memorandum be prepared containing (1) a statement of the retirement benefits that Mr. Myrick would be entitled to in the event of his retirement and (2) a reference to similar actions taken by the Board in the past. It was agreed that such a memorandum should be prepared.

In a further discussion of the matter, there was general agreement that a better procedure might be to extend sick leave to Mr. Myrick for a period of 90 days after which the matter could be considered again and a decision made whether a further extension should be granted.

Chairman Martin stated that while Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, was in Washington yesterday in connection with the meeting of the Federal Open Market Committee, he inquired whether the Board would be interested in having Mr. Exter, Vice President in charge of the Foreign Department of the New York Bank, come to Washington for the purpose of reporting to the Board on his recent trip to Europe.

It was agreed unanimously that arrangements for such a report should be made on a date in the near future that would be convenient.

Chairman Martin referred to earlier informal discussions by the Board of the possible appointment by the Board of Directors of the Federal Reserve Bank of Chicago of Mr. Carl E. Allen, Jr., Class C director and Deputy Chairman, as President of the Bank for the unexpired portion of the 5-year term ending February 28, 1961. He said that he had been informed that Mr. Allen had agreed to accept the appointment and that it was the intention of the directors of the Bank at their next meeting, subject to approval by the Board of Governors, to appoint Mr. Allen as President and to fix his salary at the rate of $50,000 per annum. All of the members present indicated they were prepared to approve the appointment.

Upon the recommendation of Chairman Martin and in view of the absences of members of the Board later in the week, it was voted unanimously, subject to the action being taken by the directors of the Federal Reserve Bank of Chicago, to approve (1) the appointment of Mr. Allen as President of the Federal Reserve Bank of Chicago for the unexpired portion of the 5-year term ending February 28, 1961, and (2) the salary fixed by the directors for Mr. Allen at the rate of $50,000 per annum, effective for the period beginning as of the date upon which he enters upon the performance of his new duties and ending December 31, 1956. In taking this action, it was understood that when advice was received that the contemplated action had been taken by the Chicago directors, advice of the Board's approval would be sent to Chairman Prall without further action by the Board.

In connection with this matter, Chairman Martin stated that it had been requested that the announcement of Mr. Allen's appointment be held for a few days until the situation in his own company resulting from his leaving could be worked out and that, accordingly, it might be a week or 10 days after the action was taken by the Chicago directors before any announcement of the appointment was made by the Chicago Bank. The members of the Board were in agreement with Chairman Martin's suggestion that there would be no objection to deferring the announcement of the appointment for as long as 10 days.

Chairman Martin referred to the fact that Mr. Allen's appointment would result in a vacancy in the position of Class C director and Deputy Chairman at the Chicago Bank and there was a brief informal discussion of possible appointments to fill the vacancy.

The meeting then adjourned.

Secretary's Note: On June 26, 1956, Governor Balderston approved on behalf of the Board the recommendation contained in a memorandum dated June 20, 1956, from Mr. Bethea, Director, Division of Administrative Services, that the resignation of Anna Mary Riden, Clerk in that Division, be accepted effective June 30, 1956.

Governor Balderston today approved on behalf of the Board the following letter to Mr. Phelan, Vice President of the Federal Reserve Bank of New York:

In accordance with the request contained in your letter of June 21, 1956, the Board approves the appointment of the following named employees of your bank as assistant examiners for the Federal Reserve Bank of New York:

Joseph P. Abromitis
David W. Bouton
John G. Russell
Charles B. Zaloom
John S. McNierney
Jay W. Woods

Please advise as to the dates upon which the appointments are made effective and as to the salary rates.

Secretary