

Minutes for July 18, 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>MM</u>	_____
Gov. Szymczak	_____	x <u>MS</u>
Gov. Vardaman	x <u>V</u>	_____
Gov. Mills	x <u>J</u>	_____
Gov. Robertson	_____	x <u>R</u>
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 18, 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. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of
Research and Statistics
Mr. Marget, Director, Division of
International Finance
Mr. Sammons, Chief, Latin American Section,
Division of International Finance
Mr. Whittington, Chief, Far Eastern Section,
Division of International Finance

Mr. Deming, First Vice President, Federal
Reserve Bank of St. Louis

Mr. Deming presented a report on his recent assignment in Honduras as a member of a group which, at the request of the Honduran Government, reviewed the policies and operations of the central bank and development bank.

Following a discussion based on his remarks, Mr. Deming withdrew from the meeting along with Messrs. Marget, Sammons, and Whittington. Messrs. Leonard, Director, Division of Bank Operations, Vest, General Counsel, Bethea, Director, Division of Administrative Services, Horbett, Associate Director, Division of Bank Operations, and Shay, Assistant General Counsel, joined the meeting at this point.

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Mr. Bethea presented for consideration the question whether those members of the Board's staff not scheduled to proceed to the Board's relocation site on July 20, 1956, in connection with Operation Alert 1956 should participate in an evacuation drill under which they would leave their offices and occupy cars in the Board's parking areas. Earlier it had been the intention to have such members of the staff engage in a drill that would involve proceeding in cars to a point outside the city and then returning to the Board's building, but this plan was abandoned on advice of the local civil defense authorities. However, those authorities had now suggested to the various agencies that building evacuation drills or similar exercises be held.

In a discussion of the matter, reference was made to the personal interest displayed by the President in having the agencies of the Government cooperate fully in the emergency planning program. Reference also was made to the morale value of evacuation drills and their benefit from the standpoint of training for any hazard such as fire or explosion.

In the circumstances, it was agreed unanimously that a drill such as described by Mr. Bethea should be carried out on July 20.

Mr. Bethea then withdrew from the meeting and Mr. Cherry, Legislative 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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Memorandum dated July 10, 1956, from Mr. Young, Director, Division of Research and Statistics, regarding an invitation from The Educational Survey of the University of Pennsylvania that he serve as Chairman of a Committee of Review and Appraisal of the educational program of the Wharton School of Commerce and Finance.

Following a discussion, during which reference was made to the constructive nature of the assignment, Mr. Young was authorized to accept the invitation if he desired, with the understanding that the Board would assume travel and other expenses incident to the assignment. Governor Vardaman indicated that he voted in favor of this action reluctantly because of the heavy burden of Mr. Young's current duties.

Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

In accordance with your letter of July 3, 1956, the Board of Governors approves the payment of salary to Elliot S. Boardman, Assistant Vice President of the Federal Reserve Bank of Boston, for the period July 1, 1956, through December 31, 1956, at the rate of \$13,500 per annum, which is the rate fixed by the Board of Directors of your bank.

Approved unanimously.

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

Board authorizes expenditure of approximately \$200,000 for the remodeling program at the head office building, as outlined in your letters of June 22 and 27, 1956.

Approved unanimously.

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

In view of the information submitted in your letter of July 6, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until November

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12, 1956, the time within which The Geneva Savings and Trust Company, Geneva, Ohio, may establish a branch at the northeast corner of Austin Road and U. S. Route 20, Geneva, Ohio, under the authorization contained in its letter of January 11, 1956.

Approved unanimously.

Letter to the Board of Directors, The Lubbock National Bank, Lubbock, Texas, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as registrar of stocks and bonds, assignee, receiver, and committee of estates of lunatics. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, guardian of estates, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Lubbock National Bank is now authorized to exercise will be forwarded to you in due course.

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

Letter for the signature of the Chairman to Mr. Floyd W. Larson, Executive Secretary, Minnesota Bankers Association, Minneapolis, Minnesota, reading as follows:

Thanks very much for your letter of July 3, 1956 having to do with the savings and loan question.

The resolution adopted at the 66th Annual Convention of the Minnesota Bankers Association, in which your Association takes the position that Congress should enact a law that would prevent Federal savings and loan associations from establishing branches in States which prohibit branches,

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has been brought to the attention of the Board. You will be interested to know that the Board has taken the position in the past, in response to a request from Congress, that the policy with respect to this matter should be prescribed by Congress as has been done in the case of branches of national banks, and that the Board would favor a bill which would authorize the establishment of branches by Federal savings and loan associations if branches were expressly authorized to State savings and loan associations by the laws of the particular State. This is still the Board's position.

Following a review of the Board's previous expressions on this subject and a statement of the reasons why it was deemed inadvisable to make a more detailed reply, the letter was approved unanimously.

In connection with the foregoing telegram to the Federal Reserve Bank of Kansas City authorizing an expenditure of approximately \$200,000 for remodeling the head office building, Governor Vardaman requested that the staff prepare a statement of Reserve Bank head office alteration and remodeling programs approved by the Board during 1956.

Pursuant to the understanding at the meeting on July 16, 1956, there had been sent to the members of the Board copies of a revised draft of letter to Senator Herbert H. Lehman of New York regarding the designation of New York and Chicago as central reserve cities.

Agreement having been expressed with certain changes in the construction of the letter proposed by Governor Shepardson in the interest of clarification and emphasis, unanimous approval was given to a letter from Chairman Martin to Senator Lehman in the following form:

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This letter is in response to yours of June 26 in which you inquire whether the Board feels that, for the reasons outlined in your letter, its administrative discretion to terminate the designation of New York and Chicago as central reserve cities is limited and whether the Board desires any action by the Congress at this time for the purpose of clarifying whatever ambiguities exist.

The authority of the Board with respect to the designation of reserve and central reserve cities is contained in section 11(e) of the Federal Reserve Act which reads as follows:

"To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such." (The reference to "section twenty" is an error in the statute and should correctly refer to "section nineteen.")

It is the view of the Board that since this provision of law specifically authorizes the Board "to reclassify existing reserve and central reserve cities or to terminate their designation as such", it grants clear legal authority for the Board to reclassify New York and Chicago as reserve cities and thereby terminate their designation as central reserve cities. When the above provision of law was adopted there were three central reserve cities, including St. Louis. The classification of that city was changed by the Board from a central reserve city to a reserve city in 1922.

The Board also has authority under the conditions stated in section 19 of the Federal Reserve Act to change reserve requirements in a manner which would permit it to reduce reserve requirements in central reserve cities to the level of the requirements for member banks in reserve cities. This situation prevailed from October 3, 1942 to February 27, 1948.

Changing either the designation or reserve requirements of New York or Chicago would involve a number of important considerations. Such changes would have a very substantial effect on the credit situation. It is impossible at this time to say when monetary and credit conditions may be such as to justify an action of this kind.

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If you differ in your interpretation of the law regarding the Board's authority as stated above, it would be helpful to the Board to receive an expression of your views.

At the meetings on July 10 and 11, 1956, there were discussions regarding a form of savings certificate proposed to be used by the Midland National Bank of Minneapolis and action on the matter was deferred in order to afford Governor Mills an opportunity to express his views. Prior to this meeting, there had been sent to the members of the Board copies of a memorandum from Governor Mills dated July 16, 1956, stating reasons for preserving the current distinctions between savings accounts and certificates of deposit. For the reasons cited, it was the view of Governor Mills that use of the savings certificate in question should not be regarded favorably by the Board.

At the request of the Chairman, Governor Balderston summarized the considerations brought out by members of the Board during the previous discussions of the matter. In addition, Governors Vardaman and Shepardson and Mr. Vest restated and amplified points which they mentioned on those occasions.

In a statement in support of his memorandum, Governor Mills said that although he appreciated the views expressed by Governors Vardaman and Shepardson, he was not able to avoid the opinion that a certificate of deposit represents a special form of investment which should have a specific maturity and specific renewal if the holder wishes to renew upon maturity. He said that the forms of certificate of deposit approved in the past had had a specific maturity and allowed

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a higher rate of interest if carried to that date than if called at the option of the holder before maturity. In the case of the proposed form of savings certificate, however, it would be possible after the initial six-month period to go on without any interest rate penalty for withdrawal or the necessity to renew. He suggested that in a way this would infringe on the regulation providing that a certificate having a maturity of less than 90 days is entitled to no more than one per cent interest. In summary, he felt that the matter should receive careful study before a principle of this kind was endorsed by the Board.

Chairman Martin called attention to the value of traditions in the financial system and said that although these traditions should not stand in the way of progress he felt that caution was indicated in dealing on a piece-meal basis with proposals which represented a deviation from customary practices. He suggested that genuine progress lay in the direction of broad study leading to fundamental changes. For these reasons he was inclined to feel that a question such as the one now before the Board deserved careful study. He further expressed himself as leaning toward the view that "hybrid" instruments in the securities and financial business tend to promote unsound practices rather than genuine progress and that they have little impact on the fundamental problems. At the same time, he said, the use of such instruments is apt to create numerous problems.

Governor Balderston then restated certain views which he expressed at the meeting on July 10 regarding aspects of the general

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problem of regulating the payment of interest on deposits. His inability to reach satisfactory conclusions on those points, he said, led him to believe that the whole problem deserved reexamination, and that the views of the Reserve Bank Presidents and the Federal Advisory Council should be obtained. He agreed that in the meantime caution should be exercised in making gradual changes in the existing regulations on the basis of individual requests.

Further discussion included comments by Mr. Young which brought out the historical factors leading to the current regulations and the relative stability of savings deposits as compared with funds represented by certificates of deposit.

Chairman Martin then suggested that the problem presented by the proposed form of savings certificate be referred to the Presidents' Conference and the Federal Advisory Council with a request for their views against the general background of the problems inherent in the current distinctions between time and savings deposits.

There was unanimous agreement
with the suggested procedure.

Governor Vardaman stated that yesterday he received four telephone calls from members of the Congress regarding a resolution introduced by Senator Robertson for himself and Senators Fulbright, Bricker, and Bennett calling for a study of banking and credit conditions of the country and recommendations from a committee to the Congress for changes in the laws governing credit and banking. He said that after obtaining

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a copy of the resolution from Mr. Cherry he answered the inquiries by saying that as far as he knew the matter had not come before the Board, that he had no information on what position the Board would take if its position were asked, but that personally he would be opposed to the resolution.

Mr. Cherry said that the matter was one for decision within the Senate and that he did not anticipate that the views of the Board would be requested.

The meeting then adjourned.

Secretary's Note: On July 17, 1956,
Governor Balderston approved the
following items on behalf of the
Board:

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

In accordance with the request contained in your letter of July 12, 1956, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examination of State member banks:

Robert S. Damerjian
Irving R. Ginsburg
G. Davis Greene, Jr.
Reese D. Jones

R. Lee Klaer
J. Walton St. Clair, Jr.
Alexander A. Kudelich

The authorization heretofore given your bank designating Mr. Alexander A. Kudelich as a special assistant examiner is hereby cancelled.

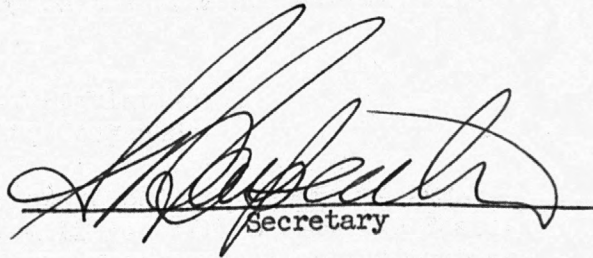
The Board also approves the designation of Nicholas Ceto, Jr., as a special assistant examiner for the Federal Reserve Bank of Philadelphia for the purpose of participating in the examination of State member banks except The Easton Trust Company, Easton, Pennsylvania.

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Letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

In accordance with the request contained in your letter of July 6, 1956, the Board approves the designation of Fred M. Melton as a special assistant examiner for the Federal Reserve Bank of St. Louis.



Secretary