

Minutes for August 6, 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>	<u>MM</u>
Gov. Szymczak	<u>MM</u>	x <u>MM</u>
Gov. Vardaman	x <u>MM</u>	<u>MM</u>
Gov. Mills	x <u>MM</u>	<u>MM</u>
Gov. Robertson	x <u>MM</u>	<u>MM</u>
Gov. Balderston	<u>MM</u>	x <u>MM</u>
Gov. Shepardson	x <u>MM</u>	<u>MM</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 6, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Solomon, Assistant General Counsel
Mr. Molony, Special Assistant to the Board

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

The members of the Research Division presented a review of business and financial developments.

During the review, reference was made to the provisions of the recently enacted Federal Flood Insurance Act of 1956 which, among other things, authorize a Federal Reserve Bank, when designated by the Administrator of the Housing and Home Finance Agency, to act on behalf of the Administrator as fiscal agent of the United States in guaranteeing certain loans made by financing institutions under the Act. In this connection, Governor Vardaman stated that to his knowledge the fiscal

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agency provision had not been cleared with the Board when the legislation was under consideration. He suggested that at an appropriate time there be a discussion of the particular provision and its significance from the standpoint of the principle involved.

Governor Vardaman also suggested a discussion of the economic impact of the recently enacted highway construction program from the standpoint of the timing and amount of the expenditures.

All of the representatives of the Division of Research and Statistics then withdrew from the meeting along with Messrs. Thurston, Riefler, and Molony.

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 July 12, 1956, from Mr. Marget, Director, Division of International Finance, recommending that Yves Maroni, Economist in that Division, be granted permission to teach a course in economic problems of Western Europe at American University two evenings each week during the current summer session.

Approved unanimously.

Memorandum dated July 30, 1956, from Mr. Fauver, Assistant Secretary, regarding an invitation to speak on the current consumer installment credit study at a regional meeting of the Robert Morris Associates to be held in Williamsburg, Virginia, on September 21 and 22, 1956.

Approved unanimously.

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

In accordance with your letter of July 23, 1956, the Board of Governors approves the payment of salary to the

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following named officers in the official capacities shown and at the rates indicated effective August 1, 1956.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Walter S. Rushmore	Manager, Cash Custody Dept.	\$12,750
Gregory O'Keefe, Jr.	Assistant Counsel	12,000
William H. Braun, Jr.	Asst. Counsel & Asst. Secretary	11,200

Approved unanimously.

Letter to the Board of Directors, State Bank of Albany, Albany, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by the State Bank of Albany, Albany, New York, of a branch at 307 Main Street, Schoharie, New York, in the quarters now occupied by The Schoharie County Bank, provided that (a) the merger of The Schoharie County Bank, Schoharie, New York, into State Bank of Albany, Albany, New York, is effected substantially in accordance with the Plan and Agreement of Merger dated June 26, 1956, (b) formal approval is obtained from the appropriate State authorities and (c) the merger and the 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.

Letter to the Board of Directors, State Bank of Suffolk, Bay Shore, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by State Bank of Suffolk, Bay Shore, New York, of a branch in the Sunrise Shopping Center,

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50 East Sunrise Highway, on the northwest corner of Sunrise Highway and North Broome Avenue, Village of North Lindenhurst (unincorporated area), Township of Babylon, Suffolk County, New York, provided the branch is established within six months from the date of this letter and the approval of appropriate State authorities is in effect at the time of the establishment of the branch.

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

Letter to the Board of Directors, The Peoples National Bank of Warrenton, Warrenton, Virginia, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, 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 Virginia, the exercise of all such rights to 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 Peoples National Bank of Warrenton is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, American Trust Company, San Francisco, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch of American Trust Company, San Francisco, California, in the vicinity of the intersection of Stevens

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Creek Road and Santa Clara-Los Gatos Road in Santa Clara County, California, provided the branch is established within one year from the date of this letter and the approval given by the Superintendent of Banks of the State of California is effective at the time it is established.

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

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

This will acknowledge receipt of your letter of July 20, 1956, advising that the Wells Fargo Bank, San Francisco, California, plans to move the location of its Woodside Road Office from 1501 Woodside Road, Redwood City, to the Woodside Plaza Shopping Center.

We concur in your opinion that the proposed change in location constitutes a relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served, and, therefore, does not require the formal consent of the Board of Governors.

Approved unanimously.

At this point, Mr. Fauver, Assistant Secretary, entered the room.

There were presented telegrams proposed to be sent 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	July 30
Atlanta	July 30
St. Louis	July 30

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New York	August 2
Philadelphia	August 2
Kansas City	August 2

Approved unanimously.

At the meeting on July 27, 1956, it was agreed that Governor Balderston would express informally to Chairman Perrin and President Powell of the Federal Reserve Bank of Minneapolis certain views of the Board regarding the proposal to reduce the Bank's discount rate from 3 per cent to 2-3/4 per cent. The following memorandum, prepared by Governor Balderston after his telephone conversations with Messrs. Perrin and Powell, was read by the Secretary at this meeting:

Chairman Perrin indicated that whereas the Minneapolis District had felt its situation to be somewhat unique in April and May, it now feels that its banks are no longer in a condition different from that of the majority of the Districts. Moreover, its bankers have felt that they were being discriminated against. For these reasons, the majority of the Executive Committee wished to indicate to the Board of Governors that, in their judgment, the Minneapolis District should have the same rate as the System as a whole.

I indicated to Chairman Perrin that the Board of Governors was reluctant to approve the reduction in rate especially at this time when the Treasury is about to go to the market again and when the settlement of the steel strike may lead other Districts to believe that the settlement may set off another turn in the wage-price spiral which should lead to a rate increase in their Districts. If such a development should occur, it would be confusing to the public to have the announcement of a reduction and then of an increase elsewhere.

Chairman Perrin indicated that the Board would understand if System-wide considerations led the Board of Governors to delay approval. They were taking this means of

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letting the Board of Governors know that they were no longer different. I suggested that on a matter of such importance, it might be well to have the decision rendered by the full Board of his Bank and not by the Executive Committee.

President Powell confirmed the fact that the feeling held by the bankers concerning discrimination had spread so that the majority of the Executive Committee felt that the time had come to cease being a "stalking horse" for the System. He indicated that his Board would not be offended if, for the reasons which I had indicated to Chairman Perrin, the rate change could not be approved.

In response to questions by Governor Vardaman, who was not present at the meeting on July 27, concerning the appropriateness of the procedure followed in the matter in the light of the division of responsibility for policy decisions within the organizational structure of the Federal Reserve System, the members of the Board who were present at that meeting reviewed the considerations which resulted in the Minneapolis Bank being advised informally of the Board's views regarding the proposed rate change. It was brought out that the decision made at the July 27 meeting was merely to defer action on the rate reduction.

Chairman Martin made a statement in which he suggested that the problem mentioned by Governor Vardaman, and pointed up by the Minneapolis proposal, involved essentially the matter of communicating to the boards of directors of the respective Reserve Banks the national background for decisions on matters of policy in such a way that it was clear to the directors and could be taken fully into consideration as a basis for

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action. He then suggested that further discussion of the proposed Minneapolis rate change be deferred until after the meeting of the Federal Open Market Committee tomorrow, and there was agreement with this suggestion.

Prior to this meeting there had been sent to the members of the Board copies of a telegram dated August 1, 1956, from Mr. Morrissey, Assistant Federal Reserve Agent at the Federal Reserve Bank of Boston, requesting authority to disclose to certain parties, upon request, unpublished information concerning the receipt and issuance of Federal Reserve notes of the Bank which were involved in the hold-up of Brink's Express Office in Boston on January 17, 1950. There had also been sent to the members of the Board copies of the following proposed reply:

As requested in your telegram of August 1, Board authorizes the Federal Reserve Agent's Department of your Bank to disclose or permit the disclosure of the unpublished information described in your telegram to representatives of the District Court, Boston, Massachusetts, the District Attorney, and the Federal Bureau of Investigation.

Approved unanimously.

Messrs. Sherman and Solomon then withdrew from the meeting.

Reference was made to a memorandum from Mr. Fauver dated August 3, 1956, copies of which had been sent to the members of the Board, reporting advice given informally to Governor Balderston on July 31, 1956,

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by Mr. Prall, Chairman of the Federal Reserve Bank of Chicago, that Mr. William M. Day had resigned as a director of the Detroit Branch as of that date because he had accepted an appointment as a director of a commercial bank.

On the assumption that Mr. Day's formal resignation would be forthcoming, it was agreed unanimously to request Chairman Prall to ascertain and advise the Board whether Mr. Elisha Gray, II, President of the Whirlpool-Seeger Corporation, St. Joseph, Michigan, would accept appointment, if tendered, as director of the Detroit Branch for the unexpired portion of the term ending December 31, 1958.

In this connection, Mr. Fauver called attention to prospective vacancies in Board-appointed directorships at Federal Reserve Banks and branches at the end of 1956, as reported in his memorandum dated July 5, 1956, copies of which had been sent to the members of the Board.

On the basis of Mr. Fauver's comments, there was some discussion of the Board's current policy relating to eligibility of directors for reappointment and of the circumstances which might justify exceptions. No decisions were reached, however, and it was understood that the subject would receive additional consideration at a later date.

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

Following the executive session, Chairman Martin informed the

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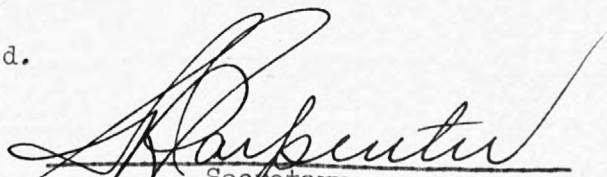
Secretary that during the session the Board took the following action by unanimous vote:

In accordance with the policy of annual rotation informally adopted at the time of Governor Balderston's designation last year, the Board vested in Governor Shepardson, effective immediately, the direction of its internal affairs that are of a managerial nature. This means that directors of divisions will take up with him matters pertaining to Board personnel, budget, and housekeeping. The Board as a whole will continue to keep in touch with the operating problems of the staff and will determine questions of policy.

The above action of the Board includes the approval of certain travel requests and to carry this into effect the official travel regulations of the Board, as amended November 22, 1955, have been further amended to substitute the words "the Board member currently in charge of internal operations" for the words "the Vice Chairman of the Board" wherever these words appear in the regulations.

The action also includes the transfer from Governor Balderston to Governor Shepardson of the authorization conferred by the Board at its meeting on April 20, 1956, to approve on behalf of the Board (1) all proposed personnel actions relating to members of the Board's staff other than the Assistant to the Board, the Assistant to the Chairman, the Economic Adviser to the Board, the Legislative Counsel, and the Special Assistant to the Board, and the directors and assistant directors of the various divisions of the staff, and (2) the proposed appointment of examiners, assistant examiners and other examiners of the Federal Reserve Banks. In taking this action it was understood that all approvals by Governor Shepardson under the authorization of this paragraph would be entered in the minutes as of the date of his approval.

The meeting then adjourned.


Secretary