

Minutes for August 23, 1956

To: Members of the Board

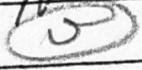
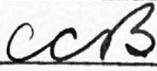
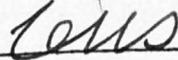
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 2 Approval of a discount rate of 3 per cent for the Federal Reserve Banks of New York, Philadelphia, Richmond, and Chicago.

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 	_____
Gov. Balderston	_____	x 
Gov. Shepardson	x 	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 23, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak 1/
 Mr. Vardaman 2/
 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. Thomas, Economic Adviser to the Board
 Mr. Young, Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Molony, Special Assistant to the Board

Governor Robertson referred to an application from the Central Bank and Trust Company, Great Neck, New York, for permission to establish a branch in the Town of North Hempstead in Nassau County. After summarizing the facts of the case and stating that approval of the application was recommended by the Federal Reserve Bank of New York and the Board's Division of Examinations, he said that the applicant bank's option for the lease of land on which the branch building was to be erected would expire on August 26, 1956, and accordingly the bank had requested that action on the application be expedited. In response to a question, he

1/ In attendance at afternoon session only.

2/ In attendance at morning session only.

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stated that the Banking Board of the State of New York had approved the establishment of the proposed branch.

Thereupon, upon the recommendation of Governor Robertson, unanimous approval was given to a letter to the Board of Directors, Central Bank and Trust Company, Great Neck, New York, reading as follows, for transmittal through the Federal Reserve Bank of New York:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Central Bank and Trust Company, Great Neck, New York, of a branch at 300 Hillside Avenue, southwest corner of Clausen Avenue and North Third Street (unincorporated area), Town of North Hempstead, Nassau County, New York, provided the branch is established within one year from the date of this letter and the approval of State authorities is in effect at the time of the establishment of the branch.

Chairman Martin referred to the action of the directors of the Federal Reserve Bank of Philadelphia taken on August 16, 1956, and repeated yesterday, establishing a rate of 3 per cent rather than 2-3/4 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, and a rate of 3-1/2 per cent on advances under section 10(b). He also said that the directors of the New York and Chicago Banks were to meet today and it was anticipated that actions would be taken at those Banks of a nature similar to the action taken at Philadelphia. In addition, Chairman Martin reported advice that the directors of the Boston, Atlanta, and St. Louis Banks would meet next

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Monday and probably would act to increase the discount rate to 3 per cent at each Bank.

Chairman Martin went on to say that, assuming the Board decided to approve these actions, the remaining question was one of timing. In this connection he referred to the Treasury bill auction next Monday and said that if the Board were to announce approval of a discount rate increase following the close of business on that day, some element of unfairness might be involved from the standpoint of the bidders, who would have submitted their bids without knowledge of a change in the discount rate. After noting that the Government securities market was holding up quite well and expressing the view that the market might rally whether or not a discount rate change was announced, he recalled that at the meeting of the Federal Open Market Committee last Tuesday, it was his thought that it would be preferable, in the absence of other considerations, to defer action on the discount rate until next week. However, there had been so much public discussion of a possible rate change that it appeared an announcement today would create little if any surprise.

In a further discussion, other members of the Board expressed the view that in the light of developments it would be advisable for the Board to approve today a discount rate of 3 per cent for those Reserve Banks from which advice had been received of the establishment of such a rate.

In this connection reference was made to an article which appeared in this morning's issue of the Washington Post indicating the probability

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of an increase in the discount rate, and statements were made regarding the background economic information which had been furnished by members of the Board's staff to the reporter who wrote the article. This led to a discussion of the most appropriate means for guarding against the public disclosure of confidential System information while at the same time maintaining satisfactory press relationships. At the conclusion of the discussion Governor Shepardson was requested to review the procedures currently followed in dealing with representatives of the press with a view to determining what steps might be taken to channelize information given to the press and thus afford the best possible assurance against improper or inaccurate reporting of System activities.

Chairman Martin then suggested that the Board meet again at 3:00 this afternoon to consider changes in the discount rate of those Banks which had by that time advised the Board that their directors had acted to increase the rate. There was agreement with this suggestion.

Governor Vardaman stated that although he would not be able to attend the meeting this afternoon because of previous commitments, he would like the record to show that he favored action by the Board to approve an increase in the discount rate to 3 per cent at any Bank which established such a rate today, and announcement of the Board's action after the close of the market this afternoon.

The meeting then recessed and reconvened at 3:00 p.m. with Chairman Martin and Governors Szymczak, Mills, Robertson, and Shepardson

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present. Messrs. Carpenter, Sherman, Kenyon, Thurston, Riefler, Young, Solomon, and Molony of the staff also were present.

Telegrams were now available from the Federal Reserve Banks of Philadelphia, Richmond, and Chicago advising that the directors of these Banks had acted, subject to the approval of the Board of Governors, to establish a rate of 3 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act and other appropriate rates of discount and purchase. In addition, advice had been received by telephone of similar action by the directors of the Federal Reserve Bank of New York. (A confirmatory telegram subsequently was received.)

Following a brief discussion, unanimous approval was given to telegrams as follows, with the understanding that the Board's press statement would be in the usual form, that a notice would be sent to the Federal Register, and that advice of the Board's action would be sent by telegram to all Federal Reserve Banks and branches:

Telegram to Mr. Hayes, President, Federal Reserve Bank of New York

Reurtel today. Board approves effective August 24, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 3-3/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3-3/4 per cent to 5-1/2 per cent on direct advances under Section 13b, including advances made in participation with financing institutions. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EDST today for immediate release.

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Telegram to Mr. McCreedy, Vice President and Secretary, Federal Reserve Bank of Philadelphia

Reurtel today. Board approves effective August 24, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3-1/2 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EDST today for immediate release.

Telegram to Mr. Wayne, First Vice President, Federal Reserve Bank of Richmond

Reurtel today. Board approves effective August 24, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EDST today for immediate release.

Telegram to Mr. Dawes, Vice President and Secretary, Federal Reserve Bank of Chicago

Reurtel today. Board approves effective August 24, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:00 p.m. EDST today for immediate release.

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Chairman Martin reported that he had received a telephone call from Mr. Wayne, First Vice President of the Federal Reserve Bank of Richmond, who stated, with respect to the action of the Federal Reserve Bank of Richmond in increasing the discount rate to 3 per cent, that three of the Richmond directors would have liked to go to 3-1/4 per cent, but that other directors did not want the Richmond Bank to "lead the procession" and the vote on the 3 per cent rate was unanimous. He said Mr. Wayne also wanted to advise the Board of Governors that the Richmond directors thought it would be helpful if the Board could make a statement regarding the "inability of monetary policy to deal with the overwhelming forces of inflation developing in the economy." Chairman Martin said he told Mr. Wayne that he would report this to the Board but that in his opinion it was unlikely that the Board would want to make such a statement.

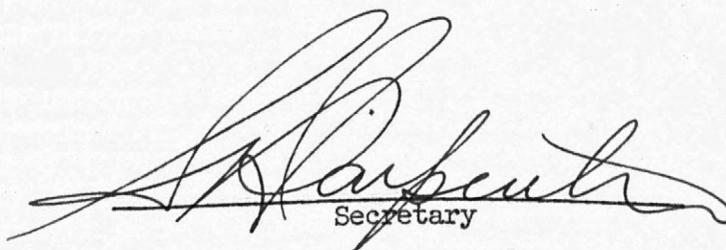
Mr. Carpenter reported receipt of telegrams from the Federal Reserve Banks of Cleveland, Kansas City, and Dallas advising that the directors of those Banks had acted to reestablish a discount rate of 2-3/4 per cent. In this connection he also referred to a telegram from President Leedy of the Kansas City Reserve Bank which stated that the action of the Executive Committee was attributable to the Bank's policy of not acting on a change in the discount rate until the matter could be taken up by the full Board of Directors and that arrangements were being made to advance the date of the next scheduled meeting of the directors.

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It was suggested that no response be made at this time to the telegrams from the Cleveland, Kansas City, and Dallas Reserve Banks, it being noted that the existing rates would automatically continue in effect in the absence of action on the part of the Board of Governors.

The meeting then adjourned.



Secretary