

Minutes for October 29, 1956

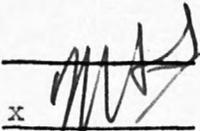
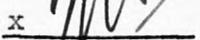
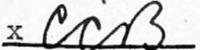
To: Members of the Board

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  | _____ |
| <u>1</u> /Gov. Vardaman | _____ | x _____ |
| Gov. Mills | x  | _____ |
| Gov. Robertson | x  | _____ |
| Gov. Balderston | x  | _____ |
| Gov. Shepardson | x  | _____ |

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 29, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Leonard, Director, Division of
 Bank Operations
 Mr. Vest, General Counsel
 Mr. Marget, Director, Division of
 International Finance
 Mr. Solomon, Assistant General Counsel

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 Mr. Braun, Assistant Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of October 8, 1956, advising that, in response to a request from the International Cooperation Administration, Mr. Arthur I. Bloomfield, Senior Economist, has been granted a leave of absence without pay for a period of approximately one month plus travel time beginning about October 15. It is noted from your letter that the purpose of this leave of absence is to enable Mr. Bloomfield to serve as Advisor to the Bank of Korea on certain matters and that the International Cooperation Administration will compensate Mr. Bloomfield for his services and pay his expenses in connection with this assignment.

The Board of Governors interposes no objection to the arrangements with respect to Mr. Bloomfield as described in your letter.

Approved unanimously.

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Letter to Mr. Meinel, Chairman, Federal Reserve Bank of Philadelphia, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Philadelphia for the period November 1, 1956, through December 31, 1956, at the rates indicated which are the rates fixed by your Board of Directors as reported in your letter of October 9, 1956.

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|--------------------|-----------------------------|----------------------|
| Harry W. Roeder | Assistant Vice President | \$12,000 |
| Walter H. Wray | Assistant Cashier | 10,500 |
| Russell P. Sudders | Assistant Cashier | 8,000 |

The balance of the proposals for officer salaries, to be effective January 1, 1957, will be considered in connection with the review of your annual budget.

Approved unanimously.

Letter to the Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of October 17, 1956, concerning the application of The Bank of Tokyo of California, San Francisco, California, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance.

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks reading as follows:

The Standing Committee of General Auditors of the Federal Reserve Banks, in consultation with the Board's Division of Examinations, has ascertained that March 6, 7, and 8, 1957, would be convenient dates for the regular biennial Conference of General Auditors, and the holding of such a conference at that time has been

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cleared with the Chairman of the Chairmen's Conference. Accordingly, a Conference of General Auditors will be held on those dates at one of the Federal Reserve Banks. You will be notified later where the meeting will be held.

The call for this Conference is being issued farther in advance of the dates of the meeting than has been customary in the past. This is in accordance with the desire of the Standing Committee to allow more time for preparation of an agenda and of material for presentation at the Conference.

Following a statement by Governor Robertson that a decision to hold the 1957 conference outside of Washington, due to conflicts with other scheduled meetings, would not be regarded as a precedent, the letter was approved unanimously, with copies to the Presidents and General Auditors of all Federal Reserve Banks.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change by those Banks, on the dates indicated, of the rates of discount and purchase in their existing schedules:

| | |
|---------------|------------|
| Boston | October 22 |
| St. Louis | October 22 |
| Atlanta | October 24 |
| San Francisco | October 24 |
| New York | October 25 |
| Richmond | October 25 |
| Cleveland | October 25 |
| Minneapolis | October 25 |
| Kansas City | October 25 |
| Dallas | October 25 |

Approved unanimously.

There had been circulated to the members of the Board a memorandum from the Division of Bank Operations dated October 24, 1956, stating that

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the net earnings of the Federal Reserve Banks for the third quarter of 1956 amounted to \$116,962,912 after allowance for accrued dividends and for deductions of \$1 million and \$3 million representing approximately one-half of the allowance necessary to bring the surplus of the Dallas and San Francisco Reserve Banks, respectively, up to 100 per cent of subscribed capital at the end of 1956. The memorandum recommended that the Board establish specified rates of interest in order that the Reserve Banks might pay the Treasury approximately 90 per cent of such net earnings as interest on Federal Reserve notes.

Unanimous approval was given to a telegram to the President of each Federal Reserve Bank stating that the Board had established under authority of the fourth paragraph of section 16 of the Federal Reserve Act the rate of (see column 1) per cent per annum interest for the preceding three calendar months on \$(see column 2) daily average of Federal Reserve notes of the Bank in the excess of gold certificates pledged with the Federal Reserve Agent as collateral security; and that an interest payment of (see column 3) should be credited to the appropriate symbol of the Treasurer's General Account on October 30, 1956.

| | (1) | (2) | (3) |
|---------------|---------|-----------------|-----------------|
| Boston | 2.03867 | \$1,067,891,435 | \$ 5,487,430.06 |
| New York | 3.36681 | 3,405,554,514 | 28,900,237.24 |
| Philadelphia | 2.30783 | 1,166,263,853 | 6,784,152.36 |
| Cleveland | 2.56274 | 1,464,196,546 | 9,457,990.83 |
| Richmond | 2.05365 | 1,227,853,068 | 6,355,764.43 |
| Atlanta | 2.35905 | 867,435,848 | 5,157,859.11 |
| Chicago | 2.74194 | 2,912,253,233 | 20,127,139.01 |
| St. Louis | 2.13036 | 776,051,585 | 4,167,144.42 |
| Minneapolis | 2.09344 | 405,611,037 | 2,140,253.64 |
| Kansas City | 2.32254 | 796,264,671 | 4,661,391.85 |
| Dallas | 2.64924 | 460,260,378 | 3,073,405.45 |
| San Francisco | 2.71033 | 1,310,676,694 | 8,953,909.74 |

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Mr. Leonard then withdrew from the meeting.

At the meeting on Thursday, October 25, the Board had a preliminary discussion of a request from the Central Bank of Turkey to the Federal Reserve Bank of New York for a \$25 million loan secured by gold. It was agreed that steps should be taken to ascertain the views of the National Advisory Council on International Monetary and Financial Problems, and that for the purpose Governor Balderston would get in touch with either Mr. Burgess, Under Secretary of the Treasury, or Mr. Overby, Assistant Secretary of the Treasury. After the meeting Governor Balderston talked with Mr. Burgess by telephone and on the following day (Friday, October 26) Mr. Burgess returned the call and in Governor Balderston's absence talked with Governor Szymczak.

Reporting on the telephone conversation, Governor Szymczak said it was Mr. Burgess' reaction that, while he could not speak for the National Advisory Council, there would be no objection on the part of the Treasury if the Federal Reserve should decide to make the loan. Further remarks by Mr. Burgess, Governor Szymczak said, reflected his personal views and included the observation that it might be some time before the loan was repaid since it seemed questionable whether Turkey could raise the money elsewhere to effect repayment. Another thought expressed by Mr. Burgess was that if the loan should be made it perhaps would be well for somebody from the Federal Reserve System or the Treasury to speak to Mr. Clarence B. Randall, Chairman of the Interdepartmental Committee on Aid to Turkey, who might talk with Turkish representatives

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in terms of the loan representing a further indication of the need for the Government of Turkey to institute appropriate measures, now long delayed, to put the country's financial affairs in order.

Governor Balderston then stated that last Thursday afternoon President Hayes of the Federal Reserve Bank of New York called on the telephone to say that the Bank's Board of Directors had discussed the gold loan request at a meeting that day but had come to no conclusion and would like to have the benefit of any guidance that the Board of Governors might wish to offer. With regard to the time element, Governor Balderston said it was Mr. Hayes' view that the matter was not urgent and that a decision would not have to be reached until about the first of December, the approximate date on which two of the New York commercial banks currently extending credit to Turkey in the amount of \$25 million would terminate the accommodation. Governor Balderston went on to say that he told President Hayes the Board would continue to discuss the matter, that the Board might wish to await Chairman Martin's return from Europe, and that before the Board came to a conclusion there might be a convenient opportunity for Mr. Hayes to discuss the matter with the Board, perhaps on the occasion of his next visit to Washington to attend a meeting of the Federal Open Market Committee.

In response to a question by Governor Robertson as to whether the loan would fall within one of the exceptions provided under the current System agreement in respect to gold loan policy, Mr. Marget expressed the opinion that it would not, since the exceptions relate to

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cases in which the applicant country is engaged in a stabilization program.

Governor Robertson then inquired whether this was not the kind of accommodation which it would be more suitable for the International Monetary Fund to extend.

Mr. Marget replied that a Fund drawing had been arranged contingent upon the acceptance of an agreement reportedly worked out with certain Turkish authorities by a Fund mission in Turkey, but that Turkish representatives who later came to Washington for further discussion disavowed the agreement and the drawing therefore was not made available.

Agreement was expressed with the view that the subject should be considered further following Chairman Martin's return and it was understood that appropriate papers bearing on the matter would be made available to the members of the Board in preparation for such further discussion.

The meeting then adjourned.

Secretary's Note: On October 26, 1956, Governor Shepardson approved on behalf of the Board the following matter relating to the Board's staff and noted on behalf of the Board the succeeding two items:

Memorandum dated October 23, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the basic annual salary of Sven E. Johnson, Foreman of Laborers in that Division, be increased from \$4,685 to \$4,830, effective November 1, 1956.

Memorandum dated September 21, 1956, from Mr. Bethea, Director, Division of Administrative Services, stating that the application of Percy C. Riston, Assistant Foreman (Labor Force) in that Division, for

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retirement under the Retirement System of the Federal Reserve Banks effective November 1, 1956, was being processed and that Mr. Riston's employment with the Board therefore would terminate as of the close of business October 31, 1956.

Memorandum dated October 12, 1956, from Mr. Young, Director, Division of Research and Statistics, stating that Mary White, Clerk in that Division, was retiring as of the close of business October 12, 1956, and would terminate her employment with the Board at that time, and that her retirement under the Board Plan of the Retirement System of the Federal Reserve Banks would become effective November 1, 1956.

On October 26, 1956, Governor Shepardson also 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 October 23, 1956, the Board approves the appointment of Robert E. Spaulding as an assistant examiner for the Federal Reserve Bank of New York.

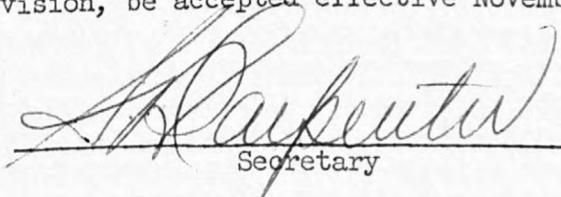
Please advise as to the date upon which the appointment is made effective and as to the salary rate.

Governor Shepardson today approved on behalf of the Board the following matters relating to the Board's staff:

Memorandum dated October 26, 1956, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Charles W. Bryson as Analyst in that Division, with basic salary at the rate of \$4,080 per annum, effective the date he assumes his duties.

Memorandum dated October 19, 1956, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the basic annual salary of Ruth A. Westergren, Supervisor, Personnel Records Unit, in that Division, be increased from \$5,605 to \$5,740, effective November 4, 1956.

Memorandum dated October 19, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Lela V. Dieffenbauch, Clerk in that Division, be accepted effective November 4, 1956.


Secretary