

Minutes for November 2, 1956.

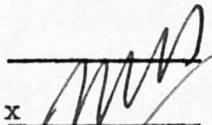
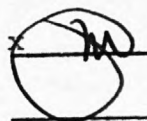


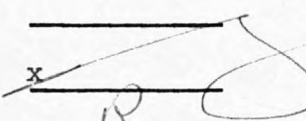

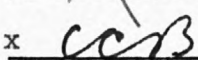
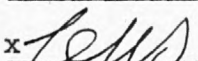
To: Members of the Board

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		
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 Friday, November 2, 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. Sloan, Director, Division of  
 Examinations  
 Mr. Marget, Director, Division of  
 International Finance  
 Mr. Solomon, Assistant General Counsel  
 Mr. Hostrup, Assistant Director, Division  
 of Examinations  
 Mr. Cherry, Legislative Counsel  
 Mr. Furth, Chief, Financial Operations  
 and Policy Section, Division of  
 International Finance  
 Mr. Katz, Chief, British Commonwealth,  
 Scandinavia, and Near East Section,  
 Division of International Finance

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:

Atlanta	October 29
St. Louis	October 29
New York	November 1
Philadelphia	November 1
Chicago	November 1

Approved unanimously.

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Governor Balderston reported receipt by the Board of a telegram from Governor Coyne of the Bank of Canada advising that effective this week the Bank was initiating a policy whereby the bank rate (discount rate) would be fixed each Thursday at a level  $1/4$  of one per cent above the average rate at the most recent weekly tender for Government of Canada 91-day Treasury bills. The telegram also stated, however, that if at any time the bill rate did not seem to be the best indicator of market conditions or if the Bank of Canada wished to signal a significant change in economic conditions, the Bank would make and announce a change in the practice.

At the request of the Board, Mr. Katz discussed the reasons which might have contributed to the Bank of Canada's decision to institute this novel arrangement. He pointed out also that while technically the discount rate would be fixed automatically under this arrangement, the Bank of Canada has been an active factor in the bill market, in addition to operating in the long-term Government securities market. In response to a question, he said that in recent months increases in the bank rate, of which there had been several, had generally followed the bill rate.

In a discussion of the subject, reference was made to the repurchase agreement mechanism in Canada and Governor Robertson suggested that a more detailed study be made by Mr. Katz in order to provide information which might be helpful in appraising the policies and procedures surrounding the use of the repurchase agreement in this country.

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During the foregoing discussion Mr. Thomas, Economic Adviser to the Board, entered the room and at its conclusion Mr. Katz withdrew from the meeting.

Pursuant to the understanding at the meeting yesterday, Mr. Solomon reviewed for the Board the nature of actions in the credit and other areas which could be taken by the Government under existing emergency legislation in the event such actions were called for by a deterioration of the international situation. In his remarks Mr. Solomon also mentioned the controls exercised during emergency periods in the past which could not be reinstated without additional legislation. His comments emphasized the broad scope of powers available under the Trading with the Enemy Act.

During Mr. Solomon's presentation Mr. Young, Director, Division of Research and Statistics, entered the room, and at the conclusion of a discussion based thereon Messrs. Thomas, Marget, and Furth withdrew from the meeting.

Governor Robertson stated that Mr. Cherry had been informed by a staff member of the Senate Banking and Currency Committee of the possibility that members of the Committee would raise questions regarding the Board's attitude toward audits of the accounts of the Board and the Federal Reserve Banks during the hearing to be held next Friday, November 9, on the recommendations of the Board and other Government agencies which were submitted in connection with the Committee's current study of the Federal statutes governing financial institutions and credit. It was Governor Robertson's thought that, with this forewarning, he should have

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the views of the other Board members as to how any such questions might most appropriately be answered.

Mr. Cherry supplemented Governor Robertson's comments by saying that the Committee staff member, feeling that the Banking and Currency Committee would be sympathetic to the Board's problem in this regard, suggested that if the Board had any specific recommendations it might be possible to have them included as a legislative proposal in the omnibus bill that the Committee intended to introduce as the result of its current study. The staff member also stated, according to Mr. Cherry, that Senator Robertson (Acting Chairman of the Banking and Currency Committee for the purpose of this study) might be willing to take the leadership in the matter if the Board took an affirmative position.

In a discussion of the subject, it was recalled that the views of the Federal Reserve Banks were not yet available and that as of the moment the System therefore had not reached agreement on any specific proposal. Various comments were made as to the type of statement which it might be appropriate for Governor Robertson to make in the circumstances but no conclusion was reached and it was understood that the matter would be considered further at the meeting of the Board next Monday, November 5.

Governor Balderston reported that the committee of investment bankers with which the Treasury consults on Government financing matters would be in Washington on Wednesday, November 14, and that a representative

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of the committee had asked whether a visit to the Federal Reserve Building could be arranged that morning for a program similar to those arranged on occasions in the past.

It was agreed that an invitation should be extended to the group to visit the Board's offices at 11:00 a.m. on November 14, or at an earlier hour if more convenient to the group, for a statement similar to that made at meetings of the Federal Open Market Committee by Messrs. Thomas and Young on the economic situation and money market developments, followed by a round-table discussion during which the members of the group would be asked to express informally any views that they might care to offer.

The meeting then adjourned.

Secretary's Note: During the day Governor Shepardson approved on behalf of the Board a proposed notice from Mr. Johnson, Director, Division of Personnel Administration, to all division heads stating that since November 11, a day designated by the Board as a holiday, falls on a Sunday this year, the Board's offices would be closed on Monday, November 12.

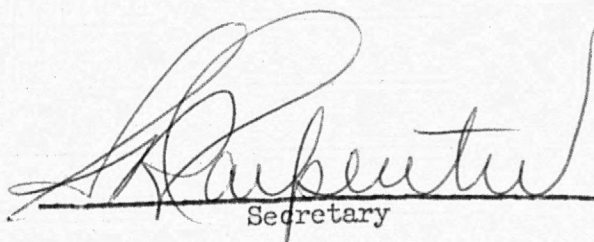
Governor Shepardson also approved on behalf of the Board the following matters relating to the Board's staff:

Memorandum dated October 15, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the basic annual salary of Arthur L. Broida, Economist in that Division, be increased from \$9,635 to \$10,320, effective November 4, 1956.

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Memorandum dated November 2, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending the transfer of Roxane L. Hodges from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in her present basic salary of \$3,670 per annum, effective November 1, 1956.



Secretary