

Minutes for March 1, 1957

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 _____	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 1, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Farrell, Assistant Director, Division of Bank Operations
 Mr. Daniels, Assistant Controller

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	February 25
Atlanta	February 25
San Francisco	February 27
New York	February 28
Cleveland	February 28
Richmond	February 28
St. Louis	February 28
Minneapolis	February 28
Kansas City	February 28
Dallas	February 28

Approved unanimously.

3/1/57

-2-

Pursuant to the understanding at the meeting on February 21, 1957, there was a discussion of the program given for newly-appointed Federal Reserve Bank and branch directors on February 20.

Governor Vardaman, who had requested review of the matter, suggested that the Board give consideration to expanding the program for the new directors over a two-day period and tying it in with a meeting of the Chairmen of the Federal Reserve Banks. He pointed out that these occasions constitute the only opportunity for the Board to provide orientation to newly-appointed directors and said that, although the programs given this year and previously had been well planned, limitations of time might have prevented the directors from absorbing fully the material presented to them. He also commented that time limitations made it impossible to cover all of the subjects worthy of discussion. In this connection, he mentioned several topics not included on the agenda which he felt should be considered.

There was general agreement that the points raised by Governor Vardaman deserved further study. Governor Robertson suggested, however, that the Board should bear in mind that a two-day meeting might discourage some of the directors from participating because of other demands on their time. He also felt that for the same reason difficulty might be encountered in obtaining the cooperation of the Reserve Bank Chairmen in a project of this kind.

Governor Balderston proposed that consideration be given to beginning the program with a dinner meeting in the evening and then

3/1/57

-3-

continuing the following day. He pointed out that in this manner the program could be expanded somewhat without requiring the directors to be away from their places of business much, if any, longer than under the present arrangement.

Governor Vardaman then suggested, as a way of moving forward on the matter, that Mr. Fauver and other appropriate members of the staff draw up a tentative agenda for a program of the kind which he had outlined so that the Board might consider the subject further and, if it seemed advisable, take the matter up with the Reserve Bank Chairmen to obtain their views, perhaps at the time of the next Chairmen's Conference.

It was agreed that staff
consideration of the matter
should proceed along the lines
suggested by Governor Vardaman.

During the foregoing discussion Governor Shepardson said he understood that a number of the Federal Reserve Banks recently had made substantial progress in building up participation of their branch directors in Reserve Bank activities. He suggested that it might be in order to make a systematic review of developments in that respect in order to determine what, if any, encouragement the Board might appropriately give to the Federal Reserve Banks to proceed further along these lines.

Chairman Martin indicated agreement with the suggestion of Governor Shepardson.

3/1/57

-4-

There had been sent to the members of the Board copies of a memorandum from Governor Shepardson dated February 25, 1957, discussing the question of branches in the Seventh Federal Reserve District in the light of a conversation which he had had with President Allen of the Federal Reserve Bank of Chicago pursuant to the Board's request at the meeting on January 29, 1957. The memorandum also drew upon the record of past consideration of this matter, as set forth in a memorandum from Mr. Leonard and Mr. Sherman, Assistant Secretary, dated February 15, 1957, copies of which likewise had been distributed to the members of the Board. As pointed out in Governor Shepardson's memorandum, it appeared from the record that any initiative in the matter now rested with the Board.

In his memorandum Governor Shepardson reported that President Allen, who had an open mind as to the desirability of additional branches, would be receptive to a request from the Board that the Bank's 1954 study of the branch question be reviewed and brought up to date, but that Mr. Allen would prefer to defer active consideration of the question of establishing an additional branch in Des Moines, Iowa, until he had had time to develop more interest and support on the part of bankers in that State. In any event, Mr. Allen was convinced that the disposition of the branch question should have no bearing on the Reserve Bank's head office building program. Governor Shepardson's memorandum also listed factors suggested by Mr. Leonard as being favorable and unfavorable to the establishment of a branch in Des Moines. It then recommended that in all

3/1/57

-5-

the circumstances the Board not press the matter further at this time, that the Board so advise President Allen, but that it also express the desire that he continue to work on the problem in the hope that an affirmative interest on the part of Iowa bankers might be developed. A draft of letter to Mr. Allen was submitted, with the suggestion that the subject also be discussed with Mr. Allen personally to clarify the Board's attitude.

Following comments by Governor Shepardson based on the information contained in his memorandum, Chairman Martin concurred in the view that the Board should ask President Allen to think further concerning the problem over the next few months. He said that at the moment he would not be inclined to favor the establishment of additional branches in the Seventh District, but that he was trying to keep an open mind and not prejudge the matter. He expressed confidence in Mr. Allen's ability to deal with a matter of this kind and said he felt that the Board ought not make any further move until Mr. Allen had had sufficient opportunity to conduct an appropriate study. In the circumstances, he suggested asking Mr. Allen to give the Board his recommendations by the first of July, and that the Board do nothing in the interim.

Governor Shepardson raised the question whether the Board wished to send any letter at this time, or whether the matter might not be better handled by informing Mr. Allen in a conversation of the views of the Board. He added, however, that inasmuch as it appeared from the record that the initiative in the branch question now rested with the Board, some letter might be appropriate.

3/1/57

-6-

Chairman Martin said that, while he would have no objection to sending a letter, the draft indicated that the Board would be receptive to a proposal to establish a branch in Des Moines. As he had indicated previously, at the moment he would have to vote in the negative, although he was trying to keep an open mind and would be willing to review the subject on the basis of such information as might be supplied by Mr. Allen.

In a further discussion Governor Vardaman said that he would favor sending a letter because otherwise Mr. Allen would have nothing to stand on in discussing the matter with his board of directors. As to the form of letter, he expressed agreement with the suggestions made by Chairman Martin.

Governor Robertson commented that a request for a report by the first of July perhaps would not give Mr. Allen sufficient time to explore the matter thoroughly. He said that, while he would be receptive to a proposal to establish a branch in Des Moines, he would not want to so indicate in a letter for reasons similar to those stated by Chairman Martin. An alternative form of letter, he said, might state that on the basis of the report by Governor Shepardson the Board had concluded not to press the branch question, but that the Board hoped that Mr. Allen would continue to explore the subject, that he would advise the Board if he felt that the need for a branch existed, and that in any event he would bring the Board up to date periodically.

3/1/57

-7-

At the conclusion of the discussion Chairman Martin suggested that the letter to President Allen be redrafted in the light of the comments made at this meeting. When Governor Vardaman stated that he would be willing to refer the matter to Governor Shepardson to draw up a letter which he deemed proper, Chairman Martin suggested proceeding on that basis.

There was unanimous agreement with this suggestion.

Messrs. Fauver, Leonard, Sloan, and Farrell then withdrew from the meeting.

Pursuant to the Statement of Budgetary Principles and Procedure approved by the Board on September 16, 1953, there had been sent to the members of the Board copies of a report prepared by the Office of the Controller under date of February 15, 1957, reviewing the budget performance of the various offices and divisions of the Board for the year 1956. The report revealed that while the Board's expenses for 1956 totaled \$5,238,522, or eight per cent more than the \$4,833,483 budgeted for the year, the excess of expenditures over the budget was attributable almost entirely to special programs authorized by the Board subsequent to the time the 1956 budget was prepared. Exclusive of the cost of such programs, the Board's expenses for the year were \$4,750,194, or two per cent less than the budget. Regarding overexpenditures by several of the divisions of the Board, the report stated that the larger portion of the amounts overexpended by account classifications received approval during the year in the manner prescribed by

3/1/57

-8-

the budgetary procedure. In those cases where approval was not obtained, the Office of the Controller had investigated and believed that the overexpenditures were reasonably unavoidable. The report also called attention to the fact that, whereas the Board's yearly expenses were at a fairly constant level from 1951 through 1955, except for general pay increases, expenses for 1956 were approximately \$738,000 higher than for 1955, and 1957 expenses were budgeted for \$273,000 more than 1956 expenses without taking into account a special contribution to the Retirement System estimated at \$1,500,000.

After summarizing the budget performance report, Mr. Johnson responded to an inquiry by the Chairman by reviewing in greater detail the expenses attributable to special programs entered into during 1956. This review and additional questions by members of the Board brought out that a large percentage of the special project expenditures was attributable to programs initiated outside the Board; for example, the request for a special study of consumer instalment credit and the delegation of certain defense planning responsibilities to the Board under Defense Mobilization Order I-20.

With regard to the performance of individual divisions of the Board under the 1956 budget, Mr. Johnson indicated that he was well satisfied with the degree of cooperation received. He said, however, that he intended to meet with division budget representatives in the near future with a view to clarifying procedures for requesting prompt approval of anticipated overexpenditures.

3/1/57

-9-

In this connection, Governor Vardaman inquired as to the basic philosophy underlying the budget operation and Mr. Johnson replied that it was the objective of the Controller's Office to assure as far as possible that the Board received value for each dollar spent.

Governor Balderston inquired whether further consideration was being given to the preparation of a long-term maintenance budget, to which Mr. Johnson responded that the matter was receiving study. He went on to point out the nature of some of the problems involved.

Governor Vardaman asked whether consideration should not be given, in terms of the Board's longer-run space requirements, to the construction of an annex building on the lot across "C" Street, and Governor Shepardson replied by saying that the matter was now being studied and that he hoped to make a presentation to the Board shortly.

Question was raised as to the desirability of sending copies of the 1956 budget performance report to the Federal Reserve Banks for their information. No conclusion being reached, agreement was expressed with a suggestion by Chairman Martin that the matter be turned over to Governor Shepardson with power to decide the question after considering the arguments for and against such action.

Secretary's Note: Governor Shepardson subsequently decided, for reasons stated in his memorandum to files dated March 4, 1957, that the report should not be sent to the Federal Reserve Banks.

3/1/57

-10-

Governor Balderston noted that the Board's budget performance reports revealed an absence of padding in the various division budgets, and he stated that he felt the Controller's Office was to be congratulated.

During the discussion reference was made to the performance of the Federal Reserve Banks under their 1956 budgets and it was understood that the Division of Bank Operations would be requested to meet with the Board for a review of the matter as soon as the necessary data had been compiled.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Governor Szymczak dated February 26, 1957, recommending the appointment of Frances P. Burton as Secretary in his Office, with basic salary at the rate of \$4,890 per annum, effective the date she assumes her duties.

Memorandum dated February 25, 1957, from Mr. Marget, Director, Division of International Finance, requesting that he be authorized to accept an invitation to address the Sixth Annual Business Economists Conference in Chicago, Illinois, on April 26, 1957, with per diem and transportation in accordance with the Board's travel regulations.


Secretary