

Minutes for April 17, 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>WM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
<u>1</u> /Gov. Vardaman	_____	x _____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>MS</u>	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 17, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Leonard, Director, Division of  
 Bank Operations  
 Mr. Hackley, General Counsel  
 Mr. Horbett, Associate Director,  
 Division of Bank Operations  
 Mr. Solomon, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel

Mr. Bryan, President, Federal Reserve  
 Bank of Atlanta

Possible designation of Miami as a reserve city. Pursuant to arrangements previously agreed upon, the following representatives of the Miami member banks were present at this meeting to state the views of the banks with regard to the designation of Miami as a reserve city pursuant to the rule adopted by the Board in 1947:

Comer J. Kimball, Chairman of the Board,  
 The First National Bank of Miami,  
 Miami, Florida

C. F. Shewmake, President,  
 Florida National Bank and Trust Company  
 at Miami, Miami, Florida

James P. McGranery, Counsel representing  
 Florida National Bank and Trust Company

A stenographic record was made of this discussion and a copy thereof is being placed in the Board's files.

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The statements by Messrs. Kimball and Shewmake and their responses to questions by members of the Board and the staff were designed to indicate that the designation of Miami as a reserve city should be deferred. The principal argument had been covered in a brief previously submitted by the Miami banks to the Board; that is, that the use of call report figures on interbank demand deposits of Miami banks during the two-year period ended June 30, 1956, did not provide an accurate picture of average interbank deposits because of wide seasonal fluctuations. These fluctuations and related data were portrayed in a group of charts which Mr. Kimball distributed at this meeting.

Among the other reasons given for deferring the designation were the prospect of a change in Governmental organization pursuant to which all of Dade County, in which the city of Miami is situated, would be brought under a metropolitan municipal government, the difficulty that would be experienced by the Miami member banks in adjusting to a higher level of reserve requirements, the effects of such an adjustment on the banks' ability to render services to the community and to correspondent banks, and the possibility of a change in the whole system of reserve requirements which would modify the level of reserves required incident to reserve city designation at this time. In summary, the argument was to the effect that although the Miami member banks would of course have to make the adjustments called for by designation of Miami as a reserve city if such a decision were reached by the Board, they did not feel that the call report figures were an appropriate basis for making such a determination. They contended that the daily averages balances

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should be used, which would serve to defer the reserve city designation, and that such a deferment would avoid a number of difficulties for Miami member banks as well as for their customers and correspondent banks. The banks realized, however, that eventually Miami would have to be designated as a reserve city.

At the conclusion of this discussion Messrs. Kimball, Shewmake, and McGranery withdrew from the meeting along with Messrs. Bryan, Horbett, and Shay. Messrs. Riefler, Assistant to the Chairman, Young, Director, Division of Research and Statistics, Cherry, Legislative Counsel, and O'Connell, Assistant General Counsel, entered the room at this point.

Items which had been circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Cleveland approving an investment in bank premises by The Newark Trust Company, Newark, Ohio.	1
Letter to The State Bank, Griffin, Georgia, approving the bank's application for membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Atlanta.)	2
Letter to the Federal Reserve Bank of Atlanta extending the time within which Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, may establish a branch at about 1211 Corrine Street.	3

Further discussion of S. 719. In a letter dated February 19, 1957, the Board reported to the Senate Committee on Banking and Currency



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with respect to bills S. 719 and S. 720, both relating to the provision of financing for small business. S. 719 would provide for the formation of national investment companies, either by the Federal Reserve Banks or by private persons, to make loans to and purchase stock of eligible business enterprises. The organization of such companies and their operations would be subject to regulation by the Board. The Board's letter stated that it would not object to legislation along the lines of S. 719, if the organization and operations of the national investment companies were not placed under the supervision of the Federal Reserve System.

At the request of the Chairman, Mr. Cherry reported a recent telephone call from Mr. John Yingling, Clerk of the Senate Banking and Currency Committee, who indicated that the Chairman of the Committee (Senator Fulbright) leaned toward legislation along the lines of S. 719 as an alternative to continuation of the Small Business Administration or other legislation which would put Government funds directly at the disposal of small business enterprises. Therefore, according to Mr. Yingling, Senator Fulbright would like to know whether the Board would be willing to take a more affirmative approach to S. 719 than it had taken in its February 19 letter. Mr. Yingling indicated a desire to discuss the subject with some appropriate person at the Board and said that Senator Fulbright probably would want to have a discussion with Chairman Martin.

Chairman Martin said that Senator Fulbright had not yet been in touch with him. He then called upon Mr. Riefler, who recalled that

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in 1950 the Board recommended the organization of investment companies through the Federal Reserve Banks, but that since then the Board had consistently taken a position that such companies, if authorized, should be organized and operated outside the supervision of the Federal Reserve System. He believed that the idea underlying the current bill was essentially a good one, but that investment companies organized to provide intermediate and long-term credit and equity capital should be private enterprises. This view inferred that they should operate for a profit on a competitive basis.

Mr. Riefler went on to recall having attended last year several meetings of an advisory committee to the Small Business Administration, at which meetings the idea of the establishment of investment companies was discussed. He said that the Treasury had planned to look into the matter from the tax standpoint, that he had heard nothing further on the subject, but that possibly the Administration was continuing to do some work in this area.

There followed a discussion of the need of small business for intermediate and long-term financing, the type of assistance which appeared to be envisaged by S. 719, and possible alternative methods of providing such assistance. This led to the question whether the Federal Reserve System should conduct a study on the basis of which the Board could make recommendations to Senator Fulbright. It was noted, however, that the statutory authority for the Small Business Administration would expire on June 30 of this year and that the Senate Banking

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and Currency Committee was contemplating hearings at an early date. It was also stated that a great deal of work had been done over the past few years in exploring possible means of providing long-term financing to small business and that studies of this nature might even now be in process at agencies within the Executive Branch of the Government. It was suggested that if such studies were in progress, it would be desirable for the Board to know of them before it went any further in expressing views with respect to legislation such as proposed in S. 719.

Accordingly, Chairman Martin suggested that, to provide better background information, Mr. Yingling be invited to talk with Mr. Riefler, who would then report back to the Board. He said that he would get in touch with Mr. Saulnier, Chairman of the Council of Economic Advisers, to ascertain whether Mr. Saulnier knew of any Administration proposals that were being formulated, while Governor Mills might wish to mention the matter at a meeting of the Advisory Board on Economic Growth and Stability.

There was unanimous agreement with the procedure suggested by Chairman Martin.

Report on H.R. 26. In a letter dated April 1, 1957, Chairman Spence of the House Banking and Currency Committee requested the Board's comments on bill H.R. 26, introduced by Congressman Patman, which would increase the number of Board members from seven to twelve, abolish the Federal Open Market Committee, and transfer the functions of the Committee to the twelve-man Board.

In a memorandum from Mr. Solomon dated April 8, 1957, copies

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of which had been distributed to the members of the Board, it was noted that H.R. 26 was identical with H.R. 569 of the 84th Congress, on which the Board reported to the House Banking and Currency Committee on January 3, 1956. In that letter the Board referred to the fact that the present Board and Committee structure was the result of long consideration on the part of the Congress and it expressed the view that the structure should be changed only if hearings and study, including expressions of opinion by all interested parties, should develop an unquestionably better organization.

Because of recent developments in the House relating to possible hearings in the monetary area, there was submitted with Mr. Solomon's memorandum a draft of proposed letter in response to the current request which would avoid such a reference. It would, however, after referring to the extended consideration by the Congress out of which the present structure was developed, express the view that no purpose would be served by enlarging the existing Board and that the unwieldiness of a twelve-man Board would impair the Board's ability to discharge its responsibilities effectively. The letter would also state that the present organization of the Federal Open Market Committee had worked satisfactorily and that the coordination of the instruments of credit policy had been effective.

During a discussion of the proposed letter, it was agreed that a revised draft of letter would be prepared which would spell out the justification for the larger membership of the Open Market Committee



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and the fact that, as opposed to the numerous responsibilities of the Board, the responsibility of the Committee was limited to the formulation of open market policy.

Messrs. Cherry and O'Connell then withdrew from the meeting and Messrs. Thurston, Assistant to the Board, and Farrell, Assistant Director, Division of Bank Operations, entered the room.

Membership dues. Under date of December 21, 1956, a letter was written over the signature of Chairman Martin to the Chairman of each Federal Reserve Bank enclosing a statement of the 1957 Reserve Bank budget provisions for membership dues and contributions. The letter commented on the variety and nature of these proposed expenditures, raised the question whether all of them qualified as "necessary expenses" within the meaning of section 7 of the Federal Reserve Act, and suggested certain guides regarding such expenditures. All of the Reserve Banks subsequently replied to the Board's letter and the replies were summarized in a memorandum from the Division of Bank Operations dated April 3, 1957, copies of which had been distributed to the members of the Board. On the basis of these replies, the memorandum raised a series of questions having to do with the possibility of broadening or making exceptions to the guides suggested in the letter of December 21, 1956. It also touched upon the question whether certain membership dues and contributions might be considered as operating expenses in view of benefits derived by the Reserve Bank from such memberships. The point was made that if this procedure should be followed, there might be some difficulty in drawing lines of demarcation.

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In response to a request for his comments, Mr. Farrell said he was somewhat concerned that the guides set forth in the Board's letter would result in inequities because of the apparent differences in interpretation revealed by the letters from the Federal Reserve Banks. He suggested that the Board might wish to consider the proposal of the New York Reserve Bank that individual memberships be regarded as appropriate Bank expenditures if they made possible participation by members of the Bank's staff in activities directly related to, and in furtherance of, the work of the Bank or if membership was necessary in order to have available for the use of Bank personnel libraries or other sources of information. He continued by summarizing several subsidiary questions posed by the replies to the Board's letter, including those relating to membership in service clubs, multiple memberships, and similar questions. In further comments, Mr. Farrell stated reasons which might be given for and against a restrictive policy in respect to membership dues and contributions and he pointed out that the decision, whatever it might be, would have to be of an arbitrary nature.

Chairman Martin then expressed the opinion that it would be advisable for the Presidents' Conference to review the accumulated material in the interest of developing thinking on a System basis. Accordingly, it was his suggestion that the memorandum from the Division of Bank Operations be sent to the Presidents, along with the digest of replies to the Board's letter, with a request for the Presidents' views to assist in reaching a policy decision on a System-wide basis. In this

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manner he felt that the progress already made in this area could be carried through to the establishment of System policy without the necessity for an arbitrary determination on the part of the Board.

There was unanimous agreement that the procedure suggested by Chairman Martin should be followed and it was understood that a letter to the Reserve Bank Presidents would be drafted for the Board's consideration. The view was expressed that it would be desirable to transmit to the Presidents copies of all of the letters received in response to the Board's letter of December 21, 1956, so that the Presidents might have the complete views of all of the Banks.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board, on the dates indicated, the following actions with respect to the Board's staff:

April 16:

Appointment

Lola A. Buckley as Telephone Operator in the Division of Administrative Services, with basic annual salary at the rate of \$3,175, effective the date she assumes her duties.

Salary increases, effective April 21, 1957

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Edward R. Fry, Economist		\$5,710	\$5,845
Irma B. Gavin, Draftsman-Illustrator		4,620	4,755
Charles Trescott, Library Assistant		4,210	4,345

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Salary increases, effective April 21, 1957 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
M. F. Johnson, Federal Reserve Examiner		\$6,390	\$6,605
F. D. Dargo, Assistant Federal Reserve Examiner		4,660	4,795
<u>International Finance</u>			
Davita C. Leister, Secretary		3,415	3,500
John E. Reynolds, Economist		7,785	8,000
<u>Administrative Services</u>			
Harry F. Allen, Telegraph Operator		4,210	4,345
Paul G. Hutts, Operator, Tabulating Equipment		3,805	3,940

Acceptance of resignation

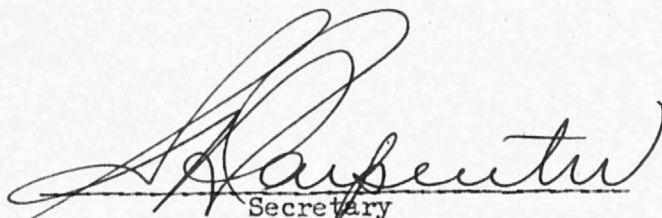
Patti A. Davenport, Secretary, Division of Research and Statistics, effective April 26, 1957.

April 17:Appointment

Henry Neil Goldstein as Economist in the Division of International Finance, with basic annual salary at the rate of \$5,440, effective the date he assumes his duties.

Outside business activity

Service of Robert B. Bangs, Chief, Far Eastern Section, Division of International Finance, as an investigator for an exploratory research project of the Patent, Trademark and Copyright Foundation, George Washington University Law School, for six to eight months (evenings and weekends) commencing May 1, 1957, with a remuneration of \$1,200.

  
Secretary



Item No. 1  
4/17/57

April 17, 1957

Mr. H. M. Boyd, Chief Examiner,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Boyd:

Reference is made to your letter of March 28, 1957, with regard to the request of The Newark Trust Company, Newark, Ohio, for permission under Section 24A of the Federal Reserve Act to carry bank premises in an amount not in excess of \$300,000.

After consideration of the information submitted, the Board concurs in the recommendation of the Federal Reserve Bank and approves an aggregate investment in banking premises of not to exceed \$300,000 by The Newark Trust Company, which will include the \$84,000 presently invested in bank premises, together with any amounts charged off during the remodeling program.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

Item No. 2  
4/17/57

April 17, 1957

Board of Directors,  
The State Bank,  
Griffin, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The State Bank, Griffin, Georgia, for stock in the Federal Reserve Bank of Atlanta, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing

The State Bank

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copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

Enclosure.

Item No. 3  
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April 17, 1957

Mr. J. E. Denmark, Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the recommendation contained in your letter of April 4, 1957, the Board of Governors extends to November 10, 1957, the time within which Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, may establish a branch at about 1211 Corrine Street within the corporate limits of Hattiesburg, under the approval given by the Board in its letter of May 10, 1956. It is understood the branch building is now under construction and it is assumed that it will be ready for occupancy sometime prior to expiration of this extension.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.