

Minutes for April 18, 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	<u>X</u> <i>TM</i>	_____
Gov. Szymczak	<u>X</u> <i>MS</i>	_____
<u>1</u> /Gov. Vardaman	_____	<u>X</u>
Gov. Mills	<u>X</u> <i>MS</i>	_____
Gov. Robertson	<u>X</u> <i>R</i>	_____
Gov. Balderston	<u>X</u> <i>CCB</i>	_____
Gov. Shepardson	<u>X</u> <i>SHS</i>	_____

- 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 Thursday, April 18, 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. Kenyon, Assistant Secretary
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Johnson, Controller, and Director,
 Division of Personnel Administration
 Mr. Hackley, General Counsel
 Mr. Sprecher, Assistant Director, Division
 of Personnel Administration
 Mr. Solomon, Assistant General Counsel

Mission to Puerto Rico. At the meeting on April 3, 1957, the Board approved in principle a Federal Reserve mission to Puerto Rico which had been requested by Puerto Rican authorities. Questions relating to the staffing of the mission and similar matters were referred to Governors Balderston and Szymczak.

At this meeting Governor Balderston reported a discussion with President Hayes of the Federal Reserve Bank of New York which indicated that the Bank would see no objection to the inclusion of a representative of the Federal Reserve Bank of Atlanta as a member of the mission. The discussion also resulted in mutual agreement that all expenses of the mission be borne by the Federal Reserve System.

Governor Szymczak stated that following a telephone call from Governor Balderston, who was in New York, he (Governor Szymczak) had talked with President Bryan of the Atlanta Reserve Bank, who was in

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Washington, regarding the proposed study and that Mr. Bryan would select a staff member of the Atlanta Bank who would be an appropriate member of the mission in the light of the objectives of the study and the total composition of the study group.

Governor Balderston said that in view of these developments it now appeared possible to write to the Governor of Puerto Rico regarding the details of the mission and that a letter was being prepared by the staff for consideration by the Board.

The other members of the Board expressed agreement with the plans that had been worked out by Governors Balderston and Szymczak.

Proposed changes in the Retirement System of the Federal Reserve Banks. At its meeting on April 8, 1957, the Board discussed with President Johns of the Federal Reserve Bank of St. Louis recommendations for changes in the Bank Plan of the Federal Reserve Retirement System which were proposed by a Special Joint Committee headed by Mr. Johns. It was stated at that time that the Board would give further consideration to the proposals and endeavor to reach a decision as promptly as possible.

Chairman Martin stated that personally he was prepared to accept the recommendations of the Special Joint Committee. Assuming that the other members of the Board felt the same way, the principal remaining problems would appear to be those stated by Governor Mills at the meeting on April 8; that is, problems in the area of public relations. While Chairman Martin thought that the Federal Reserve should not withhold any information on this matter, he doubted the advisability of discussing the subject with the Chairmen of the Congressional Banking and

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Currency Committees until after the proposed changes in the Retirement System had been approved by the board of directors of each Federal Reserve Bank. Following such approval, he would be agreeable to informing the Committee Chairmen of the action taken and would provide any information which might be requested. If, on the other hand, the Board was not prepared to accept the recommendations of the Special Joint Committee, he suggested that it would be in order for the Board to work out a positive approach to this particular problem. He then referred to the complex nature of the problems involved in changing the provisions of the Retirement System and stated that if the proposals were accepted he felt that the Board should have the assistance of Mr. Johns and members of the Special Joint Committee in presenting the subject at the Congressional level.

Governor Mills expressed the opinion that if the boards of directors of the Reserve Banks approved the recommendations of the Special Joint Committee, the Board could properly endorse the recommendations. However, he felt that at that point the System should furnish full and complete information to the Congress regarding the plan proposed to be adopted and that the Board should defer the effective date of its action for perhaps six weeks after giving notification to the Congress in order to permit any questions to be raised and avoid any charge of unilateral decision on the part of the System.

Chairman Martin then asked Mr. Hackley whether he had any question as to the legal authority to make the proposed changes and

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Mr. Hackley responded that he did not think the proposals presented any such question. He said that substantially the same legal points were involved as when the Federal Reserve Retirement System was first established, at which time it was concluded that the Retirement System could be legally justified. This position was now reinforced by the fact that the Retirement System had been in existence for a number of years.

On this point Governor Mills commented that it should be kept in mind that the establishment of the Federal Reserve Retirement System followed the establishment of the Civil Service Retirement System. On the theory that the Federal Reserve System was an arm of the Government and that the employees of the Federal Reserve Banks did not fall under the Civil Service Retirement System, it was considered proper and desirable to establish a retirement system covering the employees of the Reserve Banks on a basis that would bear some comparison to the advantages enjoyed by Civil Service employees. He went on to suggest that the importance of making complete disclosure to the Congress rested on the fact that the plan now proposed would offer certain advantages not available to persons covered by Civil Service retirement.

Mr. Hackley commented that at the meeting on April 8, Mr. Johns brought out that the Congress already had made Social Security benefits applicable to Federal Reserve Bank employees, which might suggest that the Reserve Banks could establish retirement benefits more or less similar

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to those offered by commercial banks and industrial concerns with which the Reserve Banks compete in the labor market.

Governor Mills urged caution in relying on an argument of this kind, pointing out that in the case of Civil Service employees Congress had so far rejected integration with Social Security. This raised a question whether the Reserve Banks should adopt a program embodying features that the Congress had not seen fit to adopt for Civil Service employees.

Governor Robertson then made a statement which he began by emphasizing that his remarks should not be construed to indicate that he was opposed to the proposals of the Special Joint Committee. He did, however, feel that before approving such proposals the Board should be sure that the steps taken could be fully justified. Therefore, he had asked the Division of Personnel Administration to obtain data showing exactly how the plan would affect various classes of Reserve Bank personnel, both on a retroactive basis and without retroactive provisions. These data, he said, should answer questions such as whether the plan would place certain employees due to retire within the next five years in a highly favored position. He also recalled that until a few years ago there was a ceiling on the amount of a Reserve Bank employee's salary that could be considered in computing retirement benefits. With this in mind, he had requested information as to when and why those provisions were removed, and the effect of removing them. As to procedure, he said that if the recommendations of the Special Joint Committee

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were approved by the directors of the Federal Reserve Banks, he would agree with the procedure suggested by Chairman Martin and Governor Mills.

There was agreement that it would be desirable to obtain the information referred to by Governor Robertson, the point being made that this was the kind of information that it would be well to have available in any discussions with the Congress concerning the proposed changes in the Retirement System.

Governor Shepardson then stated that although he would have no objection to obtaining such information, it was his present view that the Special Joint Committee had taken a very realistic approach to the problem and that its recommendations should be approved.

Chairman Martin concurred in the position stated by Governor Shepardson. He went on to say that basically it was his feeling that the System should move forward in matters such as this when it was acting within its legal rights and was convinced, after thorough study, that the action was proper. He concluded the discussion by expressing the view that as soon as the data mentioned by Governor Robertson were compiled, the proposed changes in the Retirement System should be given prompt consideration by the Board.

Messrs. Molony, Special Assistant to the Board, and Hexter and O'Connell, Assistant General Counsel, entered the room at this point.

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Hearing under the Bank Holding Company Act. There had been sent to the members of the Board copies of a memorandum from Mr. Hackley dated April 12, 1957, with reference to the current hearing under the Bank Holding Company Act on the applications of First National City Bank of New York and others to form a bank holding company. The hearing was scheduled to resume on April 30, 1957, and the memorandum dealt with several questions that were presented in the light of the action taken by the New York State legislature in passing a bank holding company bill which would extend the existing "freeze" statute from May 1, 1957, to May 1, 1958. The new bill, expected to be signed by the Governor on or before April 29, would have the effect of prohibiting the transactions for which Board approval had been requested. After examining the reasons which might be given for terminating the hearing and for allowing it to go forward, the memorandum recommended that the proceeding be allowed to continue to a conclusion. This recommendation contemplated that after receipt of the hearing record, including the findings and recommendations of the Hearing Examiner, the Board would then determine whether to defer its decision on the applications until after May 1, 1958, or to proceed in due course to reach a decision.

A supplemental memorandum discussed the nature of the New York statute, the question of its validity, its possible effect upon the question whether the Board should defer its decision under the Bank Holding Company Act, and the possible bearing of the statute on whether the applications should be approved or disapproved.

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Mr. Hackley commented on the subject on the basis of the material which had been presented in his memorandum and the attached supplemental memorandum. He pointed out particularly that the question whether to proceed with the current hearing involved a substantial number of interrelated legal questions such as the validity of the "freeze" statute, the extent to which it would have a bearing on the issues in the case, and its bearing on the Board's decision if the Board should decide to continue the hearing. He then proceeded to explain the arguments which might be made for continuing and for terminating the proceeding and stated the extreme positions which might be taken with respect to the effect of the State statute. Most of the Board's legal staff, he said, would be inclined to follow a middle-ground approach, taking neither the position that the Board was legally precluded from acting on the applications nor that the Board should disregard the State statute completely. Rather, it was the feeling that the Board should go ahead with the proceeding in the normal course and consider the applications on the basis of the entire record, giving due consideration at that time to the State statute as one of the pertinent factors in the case.

Mr. Solomon said that he agreed almost literally with the views expressed by Mr. Hackley. He was particularly impressed by the uncertainties in this field which made it virtually impossible to be sure of the position that might be taken by the courts. This suggested to him very strongly that the Board should let the matter follow its normal course. In that way the Board would have ample opportunity to consider in an orderly fashion all of the aspects of this debatable question.

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Mr. Hackley supplemented his previous comments by bringing out that the Administrative Procedure Act provides that an agency shall proceed with reasonable dispatch to conclude any matter presented to it. The Act also provides, he noted, that any party can request the courts to compel an agency to make its decision in a particular case.

After Mr. Sloan had expressed concurrence in the view that the hearing should be permitted to continue, Mr. Hexter likewise stated that he agreed with this view. However, on the question of the effect of the State statute and the extent to which it should be weighed by the Board in reaching a decision on the applications, his views were somewhat at variance with those of the majority of the legal staff. After explaining his position in that regard, he noted that these views were not directly pertinent to the question immediately before the Board.

Mr. O'Connell also expressed agreement with the view that the hearing should be permitted to continue.

Mr. Carpenter then stated reasons which might be given for terminating the hearing at this time. He noted that the State "freeze" statute apparently was designed for the express purpose of preventing the transactions contemplated by the current applications under the Bank Holding Company Act. In the light of the legislative history of the Act and the relationship of the Act's provisions to State law, it

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appeared to him that the State statute would effectively prohibit the applicants from carrying out the proposed transactions. Therefore, if the matter should proceed to the point of a decision by the Board and that decision should be favorable, the applicants still could not go through with the proposed transactions and the whole procedure would have been useless for practical purposes. In the circumstances, he thought the Board might want to advise the applicants that, in view of the State legislation, the Board saw no purpose in continuing the hearing at this time, but that if the State statute should be removed later the Board would be glad to consider any applications which might be made at that time.

With reference to Mr. Carpenter's comments, Mr. Hackley said that although on its face the State legislation would seem to prohibit the proposed transactions, this was not entirely certain. Conceivably, the courts might hold that the legislation did not apply to this particular situation or that the legislation was unconstitutional. He then reported that the Hearing Examiner had indicated to Mr. O'Connell that he intended to ask Counsel for the Board and the applicants about the future course of the proceedings when the hearing resumed.

Following further discussion in the light of these comments by the staff, the Chairman requested the views of the other members of the Board.

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Governor Mills expressed the opinion that the Board had a clear duty under the Federal statute to carry the case forward and to review the findings of the Hearing Examiner, at which time the questions raised in the Legal Division memorandum would have to be faced. Looking ahead to that point, he believed that where there were so many elements of legal doubt in a proceeding, it was the Board's duty to hand down a decision in the light of the record, giving due weight to the State statute. Any dissenting party would then be able to go to the courts for a declaratory judgment on the relation of the State and Federal laws.

Governor Robertson suggested the possibility of directing a letter to the applicants requesting an expression from them on whether they desired to continue with the proceeding. It was his view that the Board should stand ready to continue, but that the decision on the matter should be left in the first instance to the applicants.

The suggestion advanced by Governor Robertson was discussed at some length and the point was made that the applicants at any time could act to terminate the proceeding by requesting that the applications be withdrawn. From the discussion, it also developed that the Hearing Examiner had the intention of first requesting the views of counsel for the applicants when the hearing resumed. Accordingly, the Board's Counsel would know whether the applicants desired the proceeding to continue and it appeared that the point raised by Governor Robertson would be resolved in that manner. If so, there would not be the risk of implications which may be drawn from any communication sent by the Board to the applicants.

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The remaining members of the Board then made statements from which it developed that there was unanimous agreement with the position that the Board should stand ready to continue with the hearing if the applicants so desired. In the circumstances it was suggested that if, at the resumption of the hearing, counsel for the applicants should respond to a question from the Hearing Examiner to the effect that the applicants wanted the hearing to go forward, the Board's Counsel should state that the Board was ready to proceed.

There was unanimous agreement that such a position should be taken by the Board's Counsel.

Messrs. Molony and O'Connell then withdrew from the meeting.

Major medical insurance. There had been distributed to the members of the Board copies of a memorandum from Mr. Johnson dated April 1, 1957, recommending that the Board's health insurance program for employees be enlarged to include major medical insurance and that competitive bids be obtained from insurance companies on rates for such insurance. The memorandum expressed the view that the inclusion of major medical insurance would fill a need for protection against financial emergency not covered under group hospitalization plans and indicated that considerable interest had been shown by the Board's employees. It also reviewed the historical development of major medical insurance, presented an analysis of the expenses customarily covered by such insurance, described several different plans, set forth

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specifications which would form the basis for obtaining bids from insurance companies, and listed the companies that would be asked to bid.

At the Board's request, Mr. Johnson summarized the principal points covered in his memorandum and developed certain additional information. By use of a chart which he displayed, he showed how major medical insurance would supplement coverage provided by group hospitalization, following which he reviewed staff consideration of such insurance in the light of possible legislation which would establish such a program for Federal employees. At present, he said, it did not appear likely that legislation would be passed at this session of the Congress, and the Division of Personnel Administration therefore had decided to present to the Board the question of providing major medical insurance through a private insurance company. However, the bid specifications would include the right to terminate the insurance contract at the option of the Board, so that the program, if entered into, could be reconsidered on the basis of any legislation which might be enacted.

In response to a question, Mr. Johnson said that he had refrained from making a recommendation at this time with respect to payment for the proposed insurance, since he felt that the Board would be in a better position to discuss this matter when the insurance company rates were available. It was his impression, however, that the total cost of the insurance might not run to more than about \$1,000 per month.

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Governor Shepardson stated that he had reviewed the matter with Mr. Johnson and that he supported the recommendation contained in the memorandum. He considered this a type of insurance that the Board might well add to its health insurance program, and the Board would be in a better position to make a final decision when it had received competitive bids from several insurance companies.

In this connection, Mr. Johnson referred to the types of information that the insurance companies probably would require in preparing their bids. He felt confident that essential data could be supplied in a way that would not involve the divulging of confidential personnel information.

Thereupon, the staff was authorized to obtain competitive bids from insurance companies on rates for major medical insurance, with the understanding that the question of providing such insurance would then be considered further by the Board. At the suggestion of Governor Balderston, it was understood that alternative bids would be requested on the basis of extending the maximum benefit payable for an illness over a period of three as well as two years.

The meeting then adjourned.

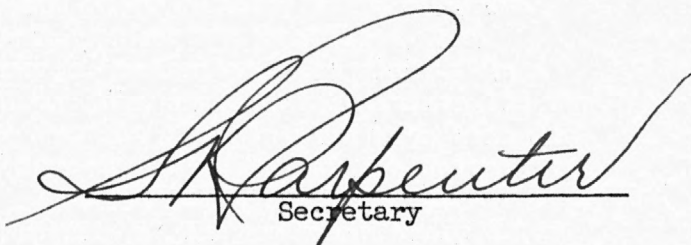
Secretary's Note: With the approval of Governor Shepardson, there was sent today to the President of Princeton University, Princeton, New Jersey, a letter having to do with participation by the Board in the Rockefeller Public Service Awards Program. A copy of the letter is attached to these minutes as Item No. 1.

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Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson, acting on behalf of the Board, today authorized the instituting of procedures to provide security clearance for Evelyn W. Edwards, Secretary, Legal Division, and Irene D. Lewis, Clerk, Office of the Secretary.

Pursuant to the recommendation contained in a memorandum from Mr. Sloan, Director, Division of Examinations, Governor Shepardson also approved today on behalf of the Board the appointment of Charles E. Francis as Assistant Federal Reserve Examiner in that Division, with basic annual salary at the rate of \$6,390, effective the date he assumes his duties.



Secretary

Item No. 1
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April 18, 1957

Mr. Harold W. Dodds, President,
Princeton University,
Princeton, New Jersey.

Dear Mr. Dodds:

The Board of Governors has been very happy to participate in the Rockefeller Public Service Awards Program over the last several years and has been honored that this recognition has been given to so many of its staff during that period.

The Board's experience from permitting its staff to participate in the Rockefeller and other similar award programs has confirmed the substantial value which may be gained from providing this type of experience to members of its staff. As a result of its experience, the Board has decided to initiate its own staff development program. The details of this plan have been discussed by Mr. Riefler with Mr. Stephen K. Bailey of the University.

This will relieve the Program of the expense involved for Board applicants and will free the limited funds for applicants from other Departments or Agencies.

I want to assure you that we shall take a continued interest in the future work of the Program.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.