

To: Members of the Board

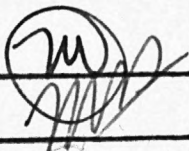

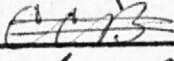
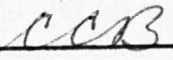
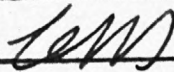
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 1      Increase in section 13b  
rate at Federal Reserve  
Banks of Cleveland and  
Kansas City.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 14, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Szymczak  
 Mr. Vardaman 1/  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson

Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Fauver, Assistant Secretary  
 Mr. Riefler, Assistant to the  
 Chairman  
 Mr. Hackley, General Counsel  
 Mr. Noyes, Adviser, Division of  
 Research and Statistics

Discount rates. 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:

Minneapolis	June 7 and 13
San Francisco	June 12
New York	June 13
Atlanta	June 13
Chicago	June 13
St. Louis	June 13
Dallas	June 13
Boston	June 14

The telegrams were approved unanimously.

Increase in section 13b rate at Cleveland and Kansas City Banks.

In a telegram dated June 13, 1957, Mr. Fulton, President of the Federal Reserve Bank of Cleveland, advised that the Board of Directors of the Bank had established, subject to review and determination by the Board of

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1/ Entered meeting at point indicated in minutes.

6/14/57

-2-

Governors, a maximum rate of 6 per cent on advances direct to industrial or commercial businesses, including advances made in participation with other financing institutions, under section 13b of the Federal Reserve Act. The existing range of rates on such advances was 3-1/2 per cent to 5-1/2 per cent. The other rates of discount and purchase in the Bank's existing schedule were established without change by the directors.

In another telegram, also dated June 13, 1957, Mr. Hall, Chairman of the Federal Reserve Bank of Kansas City, advised that the Board of Directors of that Bank had established, subject to review and determination by the Board of Governors, a maximum rate of 6 per cent on advances direct to industrial or commercial businesses, including advances made in participation with other financing institutions, under section 13b of the Federal Reserve Act, with a maximum rate of 1-1/2 per cent on commitments to make such advances. The existing range of rates on section 13b advances was 3-1/2 to 5-1/2 per cent and the range of rates on commitments was 1/2 per cent to 1-3/8 per cent. The other rates of discount and purchase in the Bank's existing schedule were established without change by the directors.

Following a brief discussion, unanimous approval was given to a telegram to President Fulton advising that the Board approved establishment by the Cleveland Bank of the proposed maximum rate of 6 per cent, effective June 17, 1957, and that the Board approved the establishment without change of the other rates of discount and purchase in the Bank's existing schedule. Unanimous approval also was given to a telegram to Chairman Hall advising that the Board approved establishment by the Kansas City Bank of the proposed maximum rate of 6 per cent on advances under

6/14/57

-3-

section 13b and the proposed maximum rate of 1-1/2 per cent on commitments to make such advances, effective June 17, 1957, and that the Board approved the establishment without change of the other rates of discount and purchase in the Bank's existing schedule. These actions were taken with the understanding that advice of approval by the Board of the rate changes at the Cleveland and Kansas City Reserve Banks would be sent by telegram to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of all Federal Reserve Bank branches.

Inquiry from the Joint Committee on Reduction of Nonessential Federal Expenditures (Item No. 1). In a letter dated May 31, 1957, Senator Byrd, Chairman of the Joint Committee on Reduction of Nonessential Federal Expenditures, requested information relative to the recommendations of the Second Hoover Commission applicable to the Board of Governors of the Federal Reserve System. A draft of reply had been distributed to the members of the Board which would note that the Hoover Commission had made no recommendations with regard to the Federal Reserve System in its report covering lending, guaranteeing, and insurance agencies of the Federal Government. It would also comment on the possible applicability to the Board of Governors of a Commission recommendation that a representative of the Secretary of the Treasury sit ex officio on all boards or commissions having power to affect the fiscal policy of the United States, with the principal function of conveying to such agencies the credit policy of the Federal Government. The remaining part of the proposed reply would deal with the possible repeal of section 13b of the Federal Reserve Act and the repayment by the Federal Reserve Banks to the Treasury of the \$27.5 million advanced by the Treasury when section 13b was enacted in 1934.

6/14/57

-4-

In a discussion of the proposed reply, the point was brought out that the information contained therein was of a nature similar to that previously reported by the Board in response to requests from the House Committee on Government Operations. However, since the current request was from a Congressional Committee whose activities are directed primarily to the reduction of nonessential Federal expenditures, the suggestion was made that the letter be revised in certain respects to recognize the particular interest of the Committee making the inquiry. Along these lines, it was proposed that a paragraph be added which would indicate that the Board, in conducting its operating functions, was very conscious of the objectives of the Hoover Commission and the Joint Committee and was continually endeavoring to eliminate nonessential expenditures. With regard to section 13b, it was suggested that the treatment of the subject be shortened, leaving emphasis on the lesser use of the program in recent years and the Board's recommendation to the Congress that the section be repealed, which would permit repayment to the Treasury of the advances originally made to the Federal Reserve Banks.

At the conclusion of the discussion, unanimous approval was given to a letter to Committee Chairman Byrd in a form which would take into account the suggestions made at this meeting. A copy of the letter sent pursuant to this action is attached to these minutes as Item No. 1.

At this point Governor Vardaman joined the meeting. He was informed by Chairman Martin of the actions that had been taken by the Board and stated that he concurred in them.

6/14/57

-5-

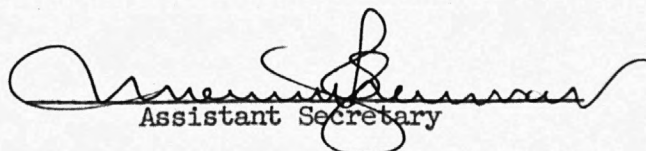
The members of the staff then withdrew and the Board went into executive session.

Actions taken in executive session. Governor Shepardson later informed the Secretary's Office that during the executive session the Board took the following actions:

- (a) Designated Governor Szymczak to succeed Governor Mills as a member of the Board of Trustees of the Retirement System of the Federal Reserve Banks, effective today.
- (b) Authorized the payment by the Board of the cost of a reception to be held later today in the staff dining room for Harry B. Stone, a member of the Board's staff retiring effective at the end of this month.
- (c) Authorized Governor Shepardson to work with the Division of Personnel Administration in developing a program for appropriate recognition of all persons who retire from the Board's staff.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond approving the appointment of Freeman Lee Moore, Jr., as **assistant** examiner. A copy of the letter is attached hereto as Item No. 2.

  
Assistant Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
6/14/57

OFFICE OF THE CHAIRMAN

June 14, 1957.

The Honorable Harry F. Byrd, Chairman,  
Joint Committee on Reduction of  
Nonessential Federal Expenditures,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your letter of May 31, 1957, requesting information relative to Second Hoover Commission recommendations applicable to the Board of Governors of the Federal Reserve System.

That portion of the Commission's report having primary relationship to the activities of the Federal Reserve Board involves the report and recommendations concerning Lending, Guaranteeing, and Insurance Agencies of the Federal Government. The report states: "This Commission has no recommendations as to the Federal Reserve System."

Although no specific recommendations were made regarding the Federal Reserve System, your Committee may be interested in the Board's view on recommendation No. 47, which reads as follows:

"That a representative of the Secretary of the Treasury sit ex officio on all boards or commissions having the power to affect the fiscal policy of the United States. His major functions when serving in this capacity would be to convey to such agencies the credit policy of the Federal Government."

It is assumed that the wording, "to affect the fiscal policy of the United States and to convey . . . the credit policy of the Federal Government," was not intended as a recommendation that a representative of the Secretary of the Treasury be made an ex officio member of the Board of Governors. The Board feels that such an arrangement would be undesirable for the reasons indicated in the Board's reply to Question II-6b of the Questionnaire of the Subcommittee of the Joint Congressional Committee on the Economic Report, November 1949. A copy of this reply is attached as Exhibit A.

Comment seems desirable also on a few other portions of the report.

The Honorable Harry F. Byrd - 2 -

The table on page 93 under "Miscellaneous Loans" contains a reference to "certain Treasury advances to the Federal Reserve Banks for industrial loans -- \$27.5 million." These funds were advances as provided by section 13b of the Federal Reserve Act enacted on June 19, 1934; they are carried on the balance sheet of the Federal Reserve Banks as surplus; and the Federal Reserve on several occasions has asked the Congress to authorize their repayment to the Treasury.

In Table VI "Agencies Primarily to Finance Business" (page 78), the report shows Federal Reserve Bank loans on June 30, 1954, totaling \$37.9 million. Of this total, some \$21.7 million represented discounts and advances for member banks and \$15 million represented loans on gold to foreign monetary authorities. Only \$1.2 million of these loans were advances to industrial and commercial businesses under the authority of section 13b of the Federal Reserve Act and could properly be considered as business financing directly. The authority for section 13b loans to business for working capital purposes was actively used in the 'thirties as a recovery measure but has had only intermittent use since that period. On June 12, 1957, only \$773,000 of such loans were outstanding.

The Board has previously taken a position favoring the repeal of this authority, and the bill to revise the banking laws (The Financial Institutions Act of 1957) as passed by the Senate would repeal section 13b and would authorize the Federal Reserve Banks to repay to the Treasury the \$27.5 million advanced originally for the making of such loans.

The Board has asked me to assure you that it is in full accord with the objective of your Committee and of the Hoover Commission in reducing nonessential Governmental expenditures. We endeavor to keep this objective constantly in front of us in conducting the operations of the Federal Reserve Board.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



## (EXHIBIT A)

- II-6b. What would be the advantages and disadvantages of providing that the Secretary of the Treasury should be a member of the Federal Reserve Board? Would you favor such a provision?

For many years prior to the enactment of the Banking Act of 1935 the Secretary of the Treasury was an ex-officio member of the Federal Reserve Board. Experience demonstrated, however, that this arrangement had serious disadvantages. Being fully occupied with the extensive duties of his own Department for which he was primarily responsible, the Secretary was unable to devote adequate attention to the problems of the Board or to attend its meetings with regularity. Today the burden of official responsibilities borne by the Secretary is even greater.

In the course of hearings on the Banking Act of 1935, both Senator Glass and Senator McAdoo, each of whom had previously occupied the office of Secretary of the Treasury at a time when the Secretary was also ex-officio Chairman of the Reserve Board, expressed the opinion that the Secretary should not be a member of the Board. During the same hearings, Secretary of the Treasury Morgenthau, who was at the time ex-officio Chairman of the Board, indicated that he believed the various controls of credit should be centered in a Government agency which should be as independent as possible in its determinations of credit policies.

The closest working arrangement now exists between the Treasury and the Federal Reserve, with constant consultation in all matters of mutual concern and a full appreciation of the responsibilities placed upon both. There is therefore no need for restoring the ex-officio status of the Secretary on the Reserve Board.

Excerpt from the reply of the Chairman of the Board of Governors of the Federal Reserve System to the Questionnaire of the Subcommittee of the Joint Congressional Committee on the Economic Report, November 1949.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
6/14/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1957

CONFIDENTIAL (F.R.)

Mr. N. L. Armistead, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of June 4, 1957, the Board approves the appointment of Freeman Lee Moore, Jr. as an assistant examiner for the Federal Reserve Bank of Richmond.

It is noted that Mr. Moore is indebted to Virginia Trust Company, Richmond, Virginia in the amount of \$315 and to Campbell County Bank, Brookneal Branch, Brookneal, Virginia in the amount of \$425, both non-member banks. Accordingly, the Board's approval of the appointment of Mr. Moore as an assistant examiner is given with the understanding that Mr. Moore will not be permitted to participate in any examinations of Virginia Trust Company or Campbell County Bank until his loans have been liquidated or otherwise eliminated. Please advise the Board as to the date upon which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.