

Minutes for August 7, 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>(M)</u>	<u>MA</u>
Gov. Szymczak	<u>(S)</u>	x <u>MS</u>
Gov. Vardaman	x <u>(V)</u>	<u> </u>
Gov. Mills	x <u>(M)</u>	<u> </u>
Gov. Robertson	<u> </u>	x <u>R</u>
Gov. Balderston	x <u>CCB</u>	<u> </u>
Gov. Shepardson	x <u>SS</u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 7, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of
Bank Operations
Mr. Masters, Director, Division of
Examinations
Mr. Solomon, Assistant General Counsel

Discount rates. Governor Vardaman stated that he had requested Mr. Thomas, Economic Adviser to the Board, to prepare as a matter of information such views as he might have regarding differential discount rates applicable to continuous or repetitive borrowing by member banks, including the reasons for the philosophy underlying the establishment of such rates, the effects of the practice, and the things to which the differential rates might be related.

In brief discussion of the matter, Governor Mills cited reasons against the establishment of differential rates and suggested that problems of continuous borrowing should preferably be dealt with through the administration of the discount window, as provided under the Board's Regulation A.

Governor Vardaman indicated that he had no fixed views on the matter at the present time and that he had requested Mr. Thomas to prepare the material only to permit study of the subject.

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Legal proceeding against Nugent R. Oberwortmann and others (Item No. 1). In a letter to Chairman Martin dated July 23, 1957, Mr. Meyer Field of Chicago, Illinois, referred further to a legal proceeding which he had instituted against Mr. Nugent R. Oberwortmann and others for the principal purpose of setting aside the sale to the defendants of certain shares of the capital stock of the North Shore National Bank of Chicago. In his complaint, Mr. Field had charged that the sale of the stock should be set aside because it resulted from unlawful pressure exerted by the defendants against the plaintiff and because of the violation of fiduciary relationships on the part of the defendants. It appeared from Mr. Field's letter and enclosures that the Illinois Appellate Court had now ruled that the lower court should not have granted a motion to dismiss the complaint, and that the plaintiff should be allowed to attempt to prove the facts alleged in the complaint. It was also indicated that Mr. Field had written to members of the House Banking and Currency Committee, had referred to the fact that Mr. Oberwortmann was a director of the Federal Reserve Bank of Chicago, and had stated that some aspects of the matter were directly within the purview of the Federal Reserve Board. However, the latest correspondence from Mr. Field did not add any new facts to those which he had previously alleged.

In a memorandum dated July 25, 1957, which had been circulated to the members of the Board, Mr. Solomon reviewed the nature of the complaint filed by Mr. Field, discussed the most recent correspondence

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from Mr. Field, and suggested that it would seem appropriate merely to acknowledge receipt of the letter and send a copy of the reply to the President of the Federal Reserve Bank of Chicago. With the memorandum, Mr. Solomon submitted a draft of a proposed letter of acknowledgment.

Chairman Martin asked Mr. Solomon whether the Legal Division had looked into the matter carefully. He said that it had been mentioned to him by two members of the Congress recently and that he had told them the matter was under study.

Mr. Solomon assured the Chairman that the matter had been given careful attention, both upon receipt of the recent letter from Mr. Field and following receipt of previous correspondence from Mr. Field some two years ago. After reviewing the nature of Mr. Field's allegations, which he said were lengthy and involved, Mr. Solomon brought out that up to this point no proof seemed to have been adduced. In the circumstances, he felt that it would be in order for the Board merely to note receipt of the correspondence, as it had done in the case of the earlier correspondence.

There being agreement with Mr. Solomon's point of view, unanimous approval was given to the suggested letter of acknowledgment to Mr. Field, a copy of which is attached hereto as Item No. 1.

At this point Messrs. Thomas, Economic Adviser to the Board, and Koch, Assistant Director, Division of Research and Statistics, entered the room.

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Testimony before the Senate Finance Committee. There had been sent to the members of the Board under date of August 5, 1957, a revised draft of statement which might be presented by Chairman Martin in testifying before the Senate Finance Committee in connection with that Committee's current hearings concerning Governmental financial and monetary policies.

Chairman Martin reported having received advice from the Committee Chairman, Senator Byrd, that the Committee's current schedule called for him to begin his testimony on Tuesday, August 13, at 10:00 a.m., and that two days would be held aside for whatever presentation Chairman Martin desired to make before the questioning by members of the Committee began on August 15. The Senator indicated, he said, that the Committee would like as much information about the Federal Reserve System as possible and referred to the possibility of having Mr. Wayne, First Vice President of the Federal Reserve Bank of Richmond, give the Reserve Bank's flannelboard presentation. Chairman Martin said that in all the circumstances, and particularly in the light of the suggestions made by Senator Byrd, he had in mind beginning the testimony with a few general remarks, following which he would present Mr. Wayne. Thereafter, he felt that advantage should be taken of the opportunity to put into the record for the benefit of the Committee the best possible formal statement on the structure and background of the Federal Reserve System and the present general thinking of the System. The formal statement, he felt, should lean in the direction of being extensive and should not be curtailed

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simply for the sake of brevity. He also mentioned having said to Senator Byrd that the Committee might want to call other members of the Board and that, if so, such a procedure would of course be perfectly agreeable to him.

The discussion then turned to the revised draft of statement and the first comments were made by Governor Mills, who said that, approaching the document from the standpoint of a layman rather than from an academic point of view, he was rather apprehensive concerning the possible reaction. It was important, he thought, to bear in mind the reaction of the lay community to a statement discussing a very sensitive area which came from an informed source. His principal question was whether the tone of the statement, as drafted, might provoke concern and unnecessary worry about the problem of inflation and where continuing inflation might lead the country, particularly because certain portions of the statement, taken out of context, might leave a false impression concerning the position of the System. To help avoid that possibility, he suggested that the warning about inflation contained in the opening paragraph of the draft be followed immediately by material such as that contained in the concluding part of the paper which would clearly indicate that it was within the power of the Government and the people to prevent the type of inflationary developments that would have long-lasting consequences. He also felt that some of the intermediate discussion of the inflationary process might be too extensive and that it was couched in stronger language than necessary for the purpose.

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The resulting general tone of the statement, he suggested, might easily lead to the belief that the System had adopted a defeatist point of view and that continuing erosion of the value of the dollar might be expected. He noted the absence of reference in the draft to the business cycle and the possibility that changes in the cycle might provide some automatic correction of the problems that otherwise might get out of hand. In further comments Governor Mills stressed the importance of maintaining public confidence in the value of the dollar and said that a statement which explored the problem of inflation but expressed hope and determination to pursue the means of achieving economic stability would serve a valuable purpose.

Chairman Martin, after expressing the view that the points raised by Governor Mills should be borne in mind in further redrafting of the statement, proceeded to discuss informally some of the more important questions relating to the Federal Reserve System which were raised by members of the House Banking and Currency Committee during his recent testimony in regard to the Financial Institutions Act and suggested the possibility of recognizing certain of these issues in the proposed statement.

Governor Vardaman, who originally had opposed the presentation of any formal statement in testimony before the Senate Finance Committee, then stated that in view of developments, including the current atmosphere of the hearings and the appearance that they might be laying

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a foundation for efforts to pass legislation vital to the Federal Reserve System, he now agreed that some formal statement must be made. After commenting that he considered the current draft much preferable to those which had preceded it, he went on to say that he concurred in the views expressed by Governor Mills but would go even further, since upon reading the draft he was left with the feeling that inflation was considered inevitable. To what extent it would be possible to change the tone of the document he did not know. He also felt that the statement did not go far enough in explaining the limitations of System monetary and credit policy as an instrument to combat inflationary tendencies.

Further comments by members of the Board suggested the possibility of amplifying the statement to include material on the historical background of the System and perhaps on the changes effected by the banking legislation of the 1930s.

At the conclusion of the discussion, Mr. Thurston was requested to draft a further revision of the statement in the light of the views expressed at this meeting.

Arrangements for audit services (Items 2 and 3). Governor Shepardson called attention to a draft of letter to Price Waterhouse & Co., which had been circulated to the members of the Board, requesting that the firm (1) undertake as promptly as convenient after January 1, 1958, an audit of the Board's books and accounts for the year 1957, and (2) review during the examination of a Federal Reserve Bank in 1958 the

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procedures followed by the Board's field examining staff. Along with the proposed letter there had been circulated a draft of letter to Arthur Andersen & Co. stating that the Board would appreciate it if the firm would afford Price Waterhouse & Co. an opportunity for consultation on certain matters.

Governor Shepardson stated that inasmuch as Price Waterhouse & Co. was anxious to contact Arthur Andersen & Co. and also to start certain preliminary studies pertinent to the assignment, he would recommend that the letters be approved and sent.

Pursuant to this recommendation, the letters, of which copies are attached hereto as Items 2 and 3, were approved unanimously.

Removal of tennis court. Governor Shepardson referred to previous informal discussion by the Board concerning the possibility of removing the east tennis court on the lot across "C" Street owned by the Board in order to provide badly needed additional parking spaces for members of the Board's staff. He then presented a memorandum addressed to him under date of August 5, 1957, by Mr. Bethea, Director of the Division of Administrative Services, which stated that several bids had been obtained for removal of the tennis court, surfacing of the area, and performance of other required services, and that the low bid, submitted by Corson and Gruman Co., Inc., was in the amount of \$2,460.

Governor Shepardson stated that although this expenditure had not been provided for in the Board's 1957 budget, there would appear to be some advantage in having the work performed this month when the use

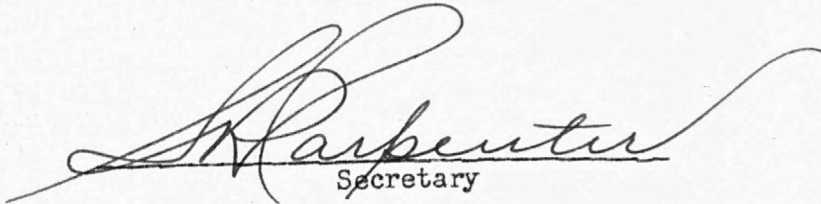
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of the parking lot was not as heavy as usual due to vacations. For this reason, and in the interest of employee relations, it was his recommendation that the low bid be accepted and the work undertaken.

Pursuant to this recommendation, it was voted unanimously to accept the low bid and Governor Shepardson was authorized to take the necessary steps to have the work performed as soon as possible.

The meeting then adjourned.


Secretary

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

Item No. 1
8/7/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 7, 1957



Mr. Meyer Field,
188 West Randolph Street,
Chicago, Illinois.

Dear Mr. Field:

This will acknowledge receipt of your letter and attachments of July 23, 1957, addressed to Chairman Martin on the subject of the legal proceeding you have instituted against Nugent R. Oberwortmann and others. It is noted from your letter and attachments that the Illinois Appellate Court has rendered an opinion with respect to the motion to strike your amended complaint, and that you have communicated with members of the Committee on Banking and Currency of the House of Representatives regarding the matter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
8/7/57

OFFICE OF THE CHAIRMAN

August 7, 1957

Price Waterhouse & Co.,
1000 Vermont Avenue, N. W.,
Washington 5, D. C.

Gentlemen:

This letter is in response to yours of July 31 with respect to the audit of the Board's books and accounts and a review during the examination of a Federal Reserve Bank of the examination procedures used by the Board's examiners.

It is requested that your firm undertake, as promptly after January 1, 1958, as is convenient, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1957.

As was explained to you by Governor Shepardson, no restrictions have or will be placed by the Board upon your firm as to the scope of the audit or the manner in which it is to be conducted, and you will make the audit as extensive and in such manner as appears to you to be desirable in accordance with generally accepted auditing standards. Compensation will be on the basis outlined in the last paragraph of your letter.

You can be assured that the Board and its staff will stand ready to consult with you whenever, as indicated in your letter, that may be desirable. A copy of a self-explanatory letter which is being addressed today to Arthur Andersen & Co. with respect to your consultation with them is attached.

Arrangements for the review of the examining procedures used by the Board's examiners in the examination of a Federal Reserve Bank will be made with you by Mr. Robert C. Masters, Director of the Division of Examinations, and it will be appreciated if you will advise with whom in your firm he should communicate in that connection.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
8/7/57

OFFICE OF THE CHAIRMAN

August 7, 1957

Arthur Andersen & Co.,
777 - 14th Street, N. W.,
Washington 5, D. C.

Gentlemen:

In a letter of November 7, 1956, requesting that you audit the Board's accounts for the year 1956, it was indicated that, for the reason stated, another firm would be selected to make the audit for 1957.

The firm of Price Waterhouse & Co. has been chosen to make the 1957 audit, and they have indicated that it would be helpful if they could confer with you before the full scope of their work had been planned. The Board of Governors would appreciate it very much if you would afford them that opportunity.

On behalf of the Board, I would like to take this occasion to express our appreciation for the excellent manner in which the audits conducted by your firm were carried out.

Sincerely yours,

Wm. McC. Martin, Jr.

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