Minutes for September 11, 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 WMM	
Gov. Szymczak	x MS	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson		x CCS

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 11, 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. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Persina, Consulting Architect to the Board

Messrs. Prall, Allen, and Harris, Chairman, President, and First Vice President of the Federal Reserve Bank of Chicago

Messrs. Naess and Sallinger, architects for the Federal Reserve Bank of Chicago

Chicago building program (Item No. 1). Pursuant to arrangements made by Governor Balderston in accordance with the discussion at the meeting on September 3, 1957, the representatives of the Federal Reserve Bank of Chicago were present to discuss questions raised by the Board regarding the proposed addition to and alterations of the head office building of the Chicago Bank.

Governor Balderston stated that the Board's questions had centered around two points, the first being whether, as a matter of policy, a central bank could appropriately embark on such a large undertaking in what might prove ultimately to have been a peak period of construction prices. To put the question another way, could the Federal Reserve System do this with propriety when it was urging prudence on the part of others? The second question, he said, was the more technical one relating to bidding procedure. Five general contractors had originally bid on the project and the two lowest bidders then were asked to submit revised bids. This had caused the Board to inquire whether there might be questions about this procedure from the standpoint of legality or propriety. Among other things, it seemed possible that one or more of the remaining contracting firms might claim that its revised bid would have been lower than the one accepted.

Mr. Allen turned first to the question of bidding procedure and said that members of the Bank's Board of Directors who are involved in building projects from time to time had felt that this was the way to proceed; it was understood to be standard practice in the field of commercial construction. However, the Reserve Bank was not entirely familiar with practices followed in Government construction programs and perhaps should have inquired into the matter further. If it seemed desirable to the Board of Governors, he said, the Reserve Bank would be glad to go back to the contractors and give them all an opportunity to submit revised bids, and this could be accomplished in a fairly short time.

Mr. Hackley said that the Legal Division had been unable to find in the statutes or pertinent Governmental regulations any specific requirement for at least three bids on a construction project. However, a statutory provision permitting negotiation in cases where all bids for a project have been rejected provides that in such event an opportunity for renogotiation shall be given to each of the responsible bidders. Along these lines, the Legal Division had been told by General Services Administration that it was their practice to notify all bidders and give them an opportunity to renegotiate. This information would suggest, therefore, that where bids are rejected a Government agency will go back to all of the bidders on a renegotiation basis.

Mr. Allen noted that the Reserve Bank had actually invited six general contractors to bid and that one had declined. He thought it was a fair statement that all of the original bids were in effect rejected and, in response to a question, said that it was about a month from the time that the original bids were received until the two revised bids were requested. In response to another question, he said that no other contractors had expressed a desire to bid. He also said that the Reserve Bank's selection of the contractors invited to bid was based on knowledge of their reputation and credit standing, and that the concerns included those whose situation was such as to indicate that they might be interested in such a project.

Governor Vardaman said he had felt that asking revised bids from only two of the contractors might expose the Reserve Bank and the System to unnecessary criticism. He went on to note that the general contract would provide for labor and materials over a period of at least three years. Since any contractor might be expected in such a situation to make provision for contingencies, he said that he had wondered whether the Bank should explore dividing the entire project into sub-projects and letting a separate contract for each of them.

Mr. Allen responded that the Reserve Bank had given some thought to this possibility since Governor Balderston was in Chicago last week, and that there were a number of aspects of the situation which it seemed important to mention. For one thing, there was a considerable amount of deferred maintenance in the existing building because of the fact that the current program was in prospect. As examples, he pointed to the questionable condition of the boilers and the desirability of repairing or removing an ornate cornice on the top of the building. Mr. Harris added to Mr. Allen's comments by saying that renovations had been deferred on the eighth floor of the building because it was expected that this would be the "feeder" floor in the building operations.

Mr. Allen then said that although theoretically the only escalation clauses were for field labor, he thought Governor Vardaman was quite correct in suggesting that any prudent contractor would make some provision for escalation. Mr. Naess estimated that escalation of possibly 6 to 8 per cent was contained in the general and subsidiary contracts, or at a rate of about 2 per cent a year. Mr. Sallinger observed that as to field labor the contracts would provide that any increase in rates would be taken care of by the Reserve Bank, and that a contingency allowance of $250,000 had been provided for this purpose. To this extent the risk would be taken away from the contractor. In response to a question, he said that it was proposed to buy the necessary steel now, so that it would be ready for the second phase of the construction. He added that the steel for the proposed seven-story addition to the head office building had already been purchased pursuant to authorization from the Board of Governors.

Mr. Allen then distributed to the members of the Board a tabulation showing how the money for the project would actually be spent during the period ending in July 1961. This tabulation indicated that the funds would be disbursed rather evenly over the years in question.

At the request of Governor Balderston, the representatives of the Chicago Bank then discussed the Bank's commitment to make quarters available to the United States Fidelity and Guaranty Company beginning not later than October 1959, under a twenty-year lease. In this connection, they pointed out that the Company's present building formerly was supported on one side by a building which had now been demolished as a part of the Reserve Bank's program, and they said that the building had now tipped away from the Reserve Bank building slightly and was beginning to exhibit certain structural defects. The arrangements with United States Fidelity and Guaranty Company, they brought out, were made in the expectation that the entire construction program would go forward, and the condition of the company's present building might create difficulty if the new offices were not available on schedule. In the circumstances, they deemed it essential that this part of the building program proceed.

At this point Mr. Sallinger discussed how the Reserve Bank, in analyzing the bid of the ventilating contractor, had found that one item of $55,000 represented provision against a possible rise in the cost of materials purchased during the period of the construction program. In that case, he said, it was arranged that the contractor would buy materials at present market prices and store the equipment, with storage charges in the neighborhood of $5,000, thus eliminating the contingency provision. He indicated that the Bank was endeavoring to work out similar arrangements with some of the other contractors; however, it was not considered desirable to keep the three required boilers in storage for a period as long as two years.

Mr. Allen then returned to Governor Vardaman's question concerning the possibility of piecemeal construction. He explained that probably the most urgent need from an operating standpoint was the truck concourse and said that personally he did not think it would be feasible to undertake only that part of the program and defer the rest, for this would involve a lot of caisson work and considerable expense. Mr. Harris added that it also involved a problem of elevators to get material out of the concourse.

In a further discussion of escalation, Mr. Prall said that before the contracts were awarded the architects would sit down with each contractor and, if there was escalation, try to get it out. Mr. Sallinger confirmed this statement, saying that he thought negotiations with the contractors would be even more productive if the Reserve Bank was in a position to say that it was now authorized and ready to let the contracts.

Mr. Allen stated that the directors, including Mr. Prall and others with experience in construction projects, had at first thought that the bids were high. However, they finally decided to accept the low bids, subject to the approval of the Board of Governors and subject to going over the bids again after additional negotiation, with the understanding that no bid higher than the bid at the time of initial approval by the Board of Directors would be accepted.

Governor Vardaman inquired of Mr. Naess whether it could be supposed that there might be as much as $700,000 provided in the bids for "protective padding". When Mr. Naess indicated that this might be possible, Governor Vardaman stated that such a figure did not seem unreasonable. He went on to say that if it was necessary to spend as much as $700,000 in order to get contractors to bid, it appeared that it would have to be done.

Governor Robertson said that, with agreement having been reached on the feasibility of giving each of the general contractors an opportunity to submit a revised bid, his concern was simply about the question of timing. In view of current System credit policy, the purpose of which is to discourage deferrable expenditures to the extent possible, he considered it unfortunate that the Reserve Bank was in a situation of having to enter into contracts at the present time for a project of the kind contemplated. By and large, he felt that the System as such ought to enter into construction projects at times when they would serve as a cushion to the economy, but he added that this argument did not hold true when there was a sufficient need to go forward. Therefore, he felt that the essential question was how the Chicago Bank's program might be justified. In answer to this question, he observed that the construction of a building for the United States Fidelity and Guaranty Company apparently could not be deferred, the need for the new concourse seemed clear, and there was an evident need for more space within the head office building itself. He then asked whether it could be said that these factors would justify entering into the recommended contracts now rather than waiting.

Mr. Allen responded that Governor Robertson had covered very well the factors in favor of going forward. On the matter of space, he pointed out that the Chicago Bank was now renting more space and paying more rent than any of the other Reserve Banks. Operations therefore tended to be cumbersome, and in his opinion space was needed very badly. While he could not honestly say that it would be impossible for the Bank to get along without additional space, an expensive and cumbersome operation was involved.

Mr. Harris mentioned, as an illustration of the current conditions, that the Bank would have to move something out of the building to make room for the electronic computer that it was now arranging to rent. If more vault space is not imperative, he noted, it is always possible for a Reserve Bank to get along, as in fact the Chicago Bank was now doing, but operations become cumbersome and expensive. He then asked whether the Bank could justify having spent and committed itself to the extent of $6 million, with no result except to take care of United States Fidelity and Guaranty Company.

Governor Robertson replied that he was talking solely about the matter of timing, that he recognized that the construction program could not be deferred indefinitely, and that in fact he did not think it could be put off for more than two years, if that long. His question was simply whether to go forward now or to wait for perhaps six months.

With regard to the possibility of piecemeal construction, Mr. Sallinger said that regardless of whether prices were to go lower, he believed that piecemeal contracting would result in a higher total cost to the Reserve Bank because of the advantages that are available in letting large contracts. If budget procedures could be set up on the basis of actual disbursements per year, he felt that this would be the most feasible and economical way to proceed.

Mr. Allen said that consideration had been given to all of the things mentioned at this meeting, and that it was the opinion of the Chicago Bank that the need justified going forward.

Governor Vardaman indicated that he was impressed by the fact that the entire amount of the contracts was not going to be spent immediately. Therefore, the impact of the expenditures would be spread over a period of years through 1961 and a lot of the inflationary potential would be removed.

Governor Robertson stated that he was thinking in terms of the example set by the System. He expected that questions would be raised and he felt that the System ought to be in a position of being able to justify the action taken.

Governor Balderston said that he too had been concerned by the matter of timing, but that the realities of the situation had been pointed up by Governor Vardaman. Even though the Chicago Bank committed itself this year, it would actually make payments over a period extending until the middle of 1961. He then asked whether it would be possible to make this clear in any announcement concerning the project; that is, that the Bank was not spending $16 million as of this moment but rather was embarking on a program to be carried out over a period of time.

Mr. Allen said that the Bank would just as soon make no announcement of what it was spending. The architects would make no announcement, he said, but the contractors could not be prevented from doing so if they wished.

Governor Vardaman noted that the Bank was actually continuing with a program that had been in the planning stage for about ten years. If there should be publicity on the part of the contractors, he suggested that it be emphasized that the payments were extending over a four-year period.

Mr. Sallinger said he felt sure that this could be covered.

Mr. Leonard commented that if the customary practice were followed, there would be mention of this project in the Board's Annual Report for 1957, along with other Reserve Bank building projects approved or completed. He felt that it would be appropriate to make some comment along the lines Governor Vardaman had suggested; if so, the text could be given to the Chicago Bank so that any comment from the Bank might be consistent. Mr. Allen said that if any announcement from Chicago should come first, the Bank would be glad to work the matter out with the Board.

Mr. Sallinger commented that the fact that the Reserve Bank was not going away from its present quarters would tend to convey the impression that this was a modernization program and not a new building project.

Governor Vardaman then inquired whether it was believed that a piecemeal letting of contracts would cost more than the padding for escalation that might be contained in the over-all contracts, and Mr. Naess replied that he thought a piecemeal letting of contracts would cost at least 10 per cent more. He did not think that the "water" in the bids on account of escalation would run to more than 6 per cent.

Mr. Harris commented that another reason for going forward with the program arose from the possibility of a major sewer project being considered by the city. This possibility, he said, had been provided for in the plans for the Bank's building project.

In response to a question by Governor Vardaman, Mr. Allen said he envisaged that the architects would go to the three general contractors who were not invited to submit revised bids and invite them to submit new bids if they wished. Mr. Naess then said that he had in mind speaking to all five contractors, that he thought this could be handled in a way that would not result in loss of good will, and that this probably could be accomplished within a week or 10 days.

Mr. Allen said that the discussion would be in terms of saying to all of the contractors that the Bank still did not like the bids and asking them what they would do. He commented that one of the contractors who submitted a revised bid appeared to be getting a little restive, but he agreed that the new approach to the contractors could be taken care of promptly.

The representatives of the Chicago Bank then withdrew from the meeting along with Messrs. Leonard and Persina, and Messrs. Masters, Director, Division of Examinations, and Cherry, Legislative Counsel, entered the room.

Chairman Martin inquired whether the Board felt disposed to settle the Chicago building program matter at this time and said that personally he saw no purpose in stopping in midstream.

Governor Mills expressed agreement and brought out that the Board was really talking about a program that in effect was approved several years ago. He could not see anything in the matter other than an obligation to authorize the Bank to go ahead with the program, and he felt that the inflationary impact would be minimal at the most. If the Bank were embarking on an entirely new program as of the moment, that would be a different matter.

Unanimous agreement then was expressed with a suggestion by the Chairman that the representatives of the Chicago Bank be informed immediately that the Board approved acceptance of the low bids received and authorized expenditures of approximately $16,622,000 for the building program. This advice was given to the Bank's representatives by the Secretary, and a copy of the confirmatory letter sent later in the day is attached hereto as Item No. 1.

Items 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:

Item No.

Letter to the Federal Reserve Bank of San Francisco extending the time within which Wells Fargo Bank, San Francisco, California, may establish a branch in the Fairway-Park Shopping Center in Hayward, California. 2

Letter to the Comptroller of the Currency submitting an unfavorable recommendation with respect to an application to organize a national bank in St. George, Richmond County, New York. (With a copy to the Federal Reserve Bank of New York) 3

Letter to the Congressional Joint Committee on Defense Production transmitting requested information concerning the Board's operations under the Defense Production Act. 4

Letter to the Department of Justice regarding the applicability of section 7 of the Clayton Act to the merger of The Bank of Arizona, Prescott, Arizona, into the First National Bank of Arizona, Phoenix, Arizona. 5

At this point Mr. Koch and Miss Burr, Assistant Directors, Division of Research and Statistics, entered the room.

Study of small business financing (Item No. 6). There had been circulated to the members of the Board letters from Senators Clark and Sparkman, dated August 30 and September 6, 1957, respectively, concerning the contemplated study of small business financing problems. Both of the Senators expressed disappointment that the proposed survey of borrowers, which would be a fundamental part of the study, could not be completed in time to be of benefit in connection with consideration of small business legislation at the next session of the Congress. There had also been distributed a copy of a letter written to Senator Clark by Senator Robertson under date of August 31, 1957, in which the latter expressed doubt as to the necessity for such a study at this time.

Another item which had been distributed to the Board was a memorandum from Mr. Young dated September 10, 1957, summarizing replies of the Reserve Banks to the Board's request for comments on the study outline submitted by the System Ad Hoc Research Subcommittee. All of the Banks indicated general support of the proposal. Some of them were enthusiastic, several suggested substantial additions to the scope of the study, and two expressed certain reservations. The Cleveland Bank suggested the inclusion of a business loan survey at commercial banks along the lines of the survey conducted in October 1955, emphasizing the desirability of conducting such a survey in October 1957.

Chairman Martin said that he was not surprised at the reaction of Senators Clark and Sparkman and that he thought he should talk with all of the Senators concerned. The developments, he said, did not influence his view that the Board should undertake the study. He felt that Senator Sparkman might have a point in suggesting that the System was remiss in not having made such a study sooner. Somebody, he said, must do the job, and he thought it could best be done by the

System, regardless of what might come out in the way of legislation.

Governor Vardaman said that he would have to disagree with the Chairman. He went on to say that he had gone along with the Board reluctantly because it appeared that nobody else was doing anything and because he thought the Board was "hooked with it" by virtue of the letter of request received from Senator Fulbright. Nevertheless, he continued to feel that the Board was not the proper agency to make the study. It had been his understanding, he said, that the Board was going to get the project cleared with the Senators, and he indicated that he would consider it unfortunate to proceed with the inquiry and spend a lot of money with two or three Senators in disagreement.

Chairman Martin stated that this was different from the position that he understood Governor Vardaman to have taken when the matter was previously discussed by the Board. His own position, he said, was that regardless of whether there were Congressional requests, the Board was under obligation to do something in this field. He had understood at the meeting on August 8, 1957, that Governor Vardaman agreed with that approach.

> Secretary's Note: The minutes for the meetings at which this matter was discussed show that the interested Senators and Congressmen were to be informed that the Board had decided to go forward with the study, but there is no mention of the study being cleared with them.

Governor Vardaman then said that he considered the matter of timing and the matter of getting the project cleared with the Senators to be the main things. He also made the comment that he would not like to launch a project of this kind with "a couple of strikes on us at the Congressional level".

Chairman Martin said that he had understood Governor Vardaman's position to be that the Board should not make the study simply on the basis that Senator Fulbright had suggested it, and Governor Vardaman replied that he did not think the study should be undertaken at the request of any individual Senator unless it could be cleared with the other interested Senators.

Chairman Martin then spoke further of his own position, saying that irrespective of whether the Senate Finance Committee or anyone else thought it should be done, he personally thought that the study should be made. He said that when the matter was up before for consideration and Governor Vardaman went along, the point was made, as he understood it, that quite aside from satisfying the Congress this was something that the Board should do.

Governor Vardaman replied this was on the basis that nobody else would make the study. However, he said, he had always contended that such a study should be under the supervision of the Department of Commerce. If nobody else would do the job, then he thought that the Board should do it.

Mr. Young then commented on the responses of the Federal Reserve Banks and reported that the study proposal was supported by the Small Business Commission of the American Bankers Association. It was the feeling among the Board's staff, he said, that this was a perennial problem, that the System did not have enough research capital in hand to deal with various aspects of it, as for example when the Board's advice was sought by Congressional committees, and that there was a need for getting into a stronger position. Recent developments in discussion of credit and monetary policy had brought to light the question of the impact allegedly incurred by the small business segment of the economy, and not enough was known about those factors. He felt that the information gathered therefore would be useful to the System as a whole. With regard to the letters from Senators Clark and Sparkman, he said that the comprehensive survey of borrowers could not be worked out on a short time schedule and that the only course would appear to be to advise the Senators accordingly. An even longer time schedule than contemplated, he said, would be helpful in spreading out the work so as to avoid excessive burden on the research staffs of the Board and the Reserve Banks.

Mr. Koch reported on a meeting of the Ad Hoc Subcommittee which was held yesterday. He said it was pretty much the unanimous opinion of the group that this was an area that deserved study, that the one element of serious concern was the time schedule, and that it was felt that furnishing part of the information by next March might give a misleading impression. It was agreed, Mr. Koch went on to say, that the borrower survey could not possibly be completed by that time. He then discussed the suggestion for another business loan survey and said that the case in favor of it was an appealing one.

Governor Mills noted that a business loan survey would require the cooperation of a large sample of commercial banks and that within the last few months the Reserve Bank Presidents had raised the problem of burdening respondent banks with questionnaires and inquiries. If this survey were undertaken, he said, it would need the blessing of both the Presidents and the American Bankers Association.

Mr. Young said he had in mind that a wire would be sent to the Presidents asking their reaction to the proposal. As to the American Bankers Association, he had the impression that cooperation would be forthcoming.

Chairman Martin then said that in view of the apparent misunderstanding about the basis of the program, he would like to talk to each Senator prior to further consideration of the matter by the Board at a time when all of the members of the Board were present.

Governor Vardaman said that he regarded the lack of information in this field as almost tragic, but that unfortunately the study had become involved with Congressional politics. Also, in view of the bill introduced by Senator Humphrey calling for a study by the Small Business Administration, he felt that it would be almost necessary to get the cooperation of that agency.

Mr. Young said that he considered it absolutely necessary to take steps, as in the consumer instalment credit study, to advise other agencies of the program and elicit their cooperation. He felt that it would be premature to pass judgment at this point on what the attitude of the Small Business Administration might be to this study. He also noted that in their letters Senators Clark and Sparkman were not critical of the study as such, but only of the timing.

Governor Balderston pointed out that in an attempt to be candid, the Board had warned the appropriate members of Congress that the third part of the study could not be ready in time for legislative discussion at the next session of Congress; the Board had stressed what it could not do and had failed to indicate what it would have been willing to do. It would have been satisfactory to him, he said, to convey to the Senators the Board's willingness to help foster experimental efforts under legislative authority, and it seemed to him that it would be impossible to draft workable legislation unless the problem were taken in at least two bites. He suggested that in a new area of this kind, what was needed was the counterpart of a pilot study; that is, to set up a few experimental projects under enabling legislation. After a couple of years of observation, legislation could perhaps be adopted which would be more sound. He concluded by repeating that the Board, in its desire to be fair and candid, perhaps had taken what was construed as a negative attitude.

Governor Robertson expressed the view that the study should be made by the Board irrespective of Congressional developments and what grew out of them, since he felt that the information was needed. He thought that Senators Clark and Sparkman were entitled to be chagrined about the delay that would be involved in completing the study, but he saw no alternative. Like Governor Balderston, he felt that the Board had failed to indicate clearly in its letter to Senator Fulbright that some available portions of the study might be useful to the Congress in its legislative discussion and that the Board would try to be as helpful as possible on the basis of whatever information it had at the time. In his opinion the Board should not cut down the scope of the study because, for its own purposes, the study should be made on as complete a basis as possible. Governor Robertson then said that he felt it would have been better if other agencies of the Government had been brought into the matter in the course of preparing the outline of the study. However, he thought the situation could be corrected by eliciting their cooperation at this time and requesting their comments on the kind of study that was contemplated. Once this had been done, he felt that the study should go forward as quickly as possible.

Governor Robertson also said that he was in complete agreement in the suggestion of the Cleveland Reserve Bank for another business loan survey in October 1957. He expressed the view that the survey would not be unduly burdensome to anyone, and he thought that the respondent banks would be cooperative in an effort to provide information that would be valuable to the Federal Reserve System and the committees of Congress, as well as to themselves.

In response to a question by Chairman Martin, Mr. Young said that the views of the American Bankers Association regarding the loan survey could be obtained promptly.

After Governor Vardaman stated that he saw no objection and Governor Mills indicated that he would not object to the loan survey if it could be cleared with the American Bankers Association, Mr. Young was authorized to get in touch with representatives of the Association to obtain their views. In addition, approval was given to a telegram, attached hereto as Item No. 6, asking the Federal Reserve Banks for their views.

Chairman Martin said that he would like an opportunity to talk with Senators Clark, Sparkman, and Robertson before further steps were taken on the study of small business financing. Personally, he said, he subscribed to Governor Robertson's position that the study should be made in any event.

Governor Vardaman stated that in principle this was his position also, but that in this particular situation the Board was caught in the midst of Congressional procedure. In view of the original request from Senator Fulbright and the subsequent developments, he felt that the Board must make clear to the Senators concerned that the study was not one that would be undertaken exclusively on the basis of an immediate need for legislation. He also felt that it would be well to admit that the Board had been remiss in not undertaking a study of this kind in the past. He agreed that Governor Robertson's suggestion would tend to relieve to some degree the unilateral nature of the study by providing consultation with other agencies to obtain their suggestions on the scope and outline of the study, and he suggested that the Select Committee on Small Business of the Senate should be contacted along with the Small Business Administration, the Council of Economic Advisers, and the Department of Commerce. In this manner, he said, the Board would in some degree put the study on a Governmental rather than a unilateral basis.

After the Chairman had stated that he would report back to the Board as quickly as he could after talking with the three Senators, Governor Vardaman suggested discussion with Senator Humphrey also. He noted that a letter had been received from Congressman Patman expressing approval of such a study but suggested that the Chairman might want to talk with Mr. Patman.

Messrs. Cherry, Molony, Noyes, and Koch and Miss Burr then withdrew from the meeting.

Expenses of emergency planning program. Governor Robertson referred to the discussion at the meeting on September 7, 1956, regarding expenses incurred by the Advisory Committee on Commercial Bank Preparedness and the Banking Committee on Emergency Operations, which were engaged in preparing an emergency planning program for the banks of the country, and to the agreement reached at that time that if necessary the committees' expenses would be paid by the Federal Reserve System. He said that the committees had been working industriously, that several pamphlets were now ready for distribution to commercial banks, and that in a recent letter, a portion of which he read, the Chairman of the Advisory Committee had stated that the matter of expenses, including expenses incident to printing and distributing the pamphlets, would be on the agenda for a meeting of the committees to be held in New York City on the 26th of this month.

Governor Robertson said that in his opinion the American Bankers Association should pay the expenses involved, which might amount to $25,000 or more, that he did not think the banks which contributed personnel to the committees should pay the bill, and if the American Bankers Association would not pay the expenses it appeared that the Board would have to pay them. He said that the Office of Defense Mobilization had no funds available and that he doubted whether any contribution could be obtained from the Comptroller of the Currency or the Federal Deposit Insurance Corporation. He proposed to discuss the matter with those in the American Bankers Association who control expenditures to see whether agreement could be reached on a basis whereby the Association and the Board would each pay half of the expenses. While he felt that it would be unfortunate if it should become known that the American Bankers Association had refused to pay the expenses of the program, in the circumstances he thought that the suggested compromise would be appropriate.

Governor Vardaman suggested that the initial approach be on the basis that the Board was not going to pay the expenses, and that if it developed to be necessary, some compromise could then be offered. Governor Mills likewise expressed doubt as to whether the Board should pay the cost of the program. He observed that commercial banks frequently contribute the services of personnel for a variety of purposes, along with out-of-pocket expenses, and he went on to suggest that payment of these expenses by the Board would be open to the kind of criticism sometimes directed at the Business Advisory Council of the Department of Commerce.

Governor Robertson agreed with these observations in principle and pointed out that the emergency planning programs of other industries had been paid for by the industries concerned. Nevertheless, he said, the Board had previously authorized him to take the position that if the banks would not pay for the program, the Board would do so.

Chairman Martin then expressed the view that the Board could not go back on a commitment which it had made. However, he suggested that Governor Robertson might state to the American Bankers Association and the Chairman of the Advisory Committee that the Board had considered the matter and thought the banks should pay the expenses of the program. Then, if they refused, Governor Robertson could bring the matter back to the Board for further consideration.

At the conclusion of the discussion, it was understood that Governor Robertson would handle the matter along the lines suggested by Chairman Martin, except that if no other means of payment was available the Board would pay the costs in accordance with its earlier commitment.

The meeting then adjourned.

> Secretary's Note: Acting in the absence of Governor Shepardson, Governor Balderston today approved on behalf of the Board the following letters, copies of which are attached hereto under the respective item numbers indicated:

	Item No.
Letter to the Federal Reserve Bank of Minneapolis approving the appointment of Lester Granville Gable as assistant examiner.	7

Item No.

8

Letter to the Federal Reserve Bank of San Francisco approving the appointment of Edward P. Cole as assistant examiner.

S R Carpenter

Secretary

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

Item No. 1
9/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1957

PERSONAL AND CONFIDENTIAL

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

This letter confirms the advice given you orally today that the Board approves acceptance of low bids for the construction of the addition to and the alterations of your head office building, as recommended by the Board of Directors of your Bank, and authorizes expenditures of approximately $16,622,000, which amount includes architects' fees and allowance of $650,000 for contingencies.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 2
9/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1957

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

As recommended in your letter of August 28, 1957, the Board of Governors extends to June 18, 1958, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch in the Fairway-Park Shopping Center on Hayward-Niles Road, Hayward, California, under the approval given by the Board in its letter of October 18, 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 3
9/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated March 14, 1957, enclosing copies of an application to organize a national bank in St. George, Richmond County, New York, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by examiners for the Federal Reserve Bank of New York indicates that the proposed capital structure of the bank would be adequate. However, it appears that the prospects for profitable operations are not very favorable, the proposed management is lacking in the experience believed necessary to assure sound administration of the institution, and there is not a sufficient need for an additional banking facility in the immediate area at this time. In view of the unfavorable factors in this situation, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
9/11/57

OFFICE OF THE CHAIRMAN

September 11, 1957

Honorable A. Willis Robertson,
Chairman,
Joint Committee on Defense Production,
Congress of the United States,
Washington 25, D. C.

Attention: Mr. Harold J. Warren, Clerk
& Counsel,
Room 927, H.O.L.C. Building,
101 Indiana Avenue, N. W.,
Washington, D. C.

Dear Senator Robertson:

In response to your letter of August 8, 1957, there is attached, for inclusion in the proposed report of the Joint Committee on Defense Production being prepared pursuant to section 712(b) of the Defense Production Act, as amended, information relating to the operations carried out by the Board under authority of that Act.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
9/11/57

OFFICE OF THE CHAIRMAN

September 11, 1957

Honorable Victor R. Hansen,
Assistant Attorney General,
Antitrust Division,
Department of Justice,
Washington 25, D. C.

Dear Judge Hansen:

This is in response to your letter of August 22, requesting comment on the statement, in my letter of June 25, that the then-contemplated merger of The Bank of Arizona, Prescott, Arizona, into the First National Bank of Arizona, Phoenix, Arizona, "does not appear . . . to be within the purview of section 7 of the Clayton Act."

Section 7 appears to recognize two different kinds of acquisitions: acquisitions of stock and acquisitions of assets. Acquisitions of assets are within section 7 if the acquiring corporation is "subject to the jurisdiction of the Federal Trade Commission" but are not within section 7 if the acquiring corporation is not subject to the jurisdiction of that Commission. In the case mentioned above, the Board understood that the proposed acquisition was to be an acquisition of assets, and since the acquiring corporation is a bank and therefore is not subject to the jurisdiction of the Federal Trade Commission under section 7, it appeared that section 7 would not apply to the transaction.

Please let us know if we can be of further assistance in this matter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
9/11/57

September 11, 1957.

To the Presidents of all Federal Reserve Banks except Cleveland

President Fulton and the staff of the Cleveland Bank recommend that a business loan survey along the lines of the October 1955 survey be conducted this October as an addition to the proposed small business financing project. A major consideration in support of this recommendation is that any System study of small business financing at this time should contain comprehensive and reliable data on changes, if any, in the share of bank loans going to small concerns during the past two years of credit restraint. Your Research Department is already familiar with the Cleveland Bank's specific proposal. Also, it was discussed yesterday by the Ad Hoc System Research Subcommittee on Small Business Financing and the consensus of the Committee was favorable for undertaking such a survey. The proposal has been discussed by telephone with Mr. Bryan, Chairman of the President's Conference Committee on Research and Statistics, who concurs in this method of canvassing Reserve Bank opinion. The Board would appreciate your views on the proposal by Friday, September 13.

(Signed) S. R. Carpenter

CARPENTER

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

Item No. 7
9/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1957

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of September 4, 1957, the Board approves the appointment of Lester Granville Gable as an assistant examiner for the Federal Reserve Bank of Minneapolis. If the appointment is not made effective September 16 as planned, please advise the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 8
9/11/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1957

Mr. R. H. Morrill, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Morrill:

In accordance with the request contained in your letter of September 4, 1957, the Board approves the appointment of Edward P. Cole as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the date upon which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.