

Minutes for January 20, 1958

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>WM</i>	_____
Gov. Szymczak	<u>x</u> <i>MS</i>	_____
Gov. Vardaman <u>1/</u>	_____	<u>x</u>
Gov. Mills	<u>x</u> <i>[Signature]</i>	_____
Gov. Robertson	<u>x</u> <i>R</i>	_____
Gov. Balderston	<u>x</u> <i>CCB</i>	_____
Gov. Shepardson	<u>x</u> <i>[Signature]</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 the Board of Governors of the Federal Reserve System
on Monday, January 20, 1958. The Board met in the Board Room at 10:00
a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank
Operations
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Shay, Legislative Counsel

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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Chicago approving the increased cost incident to providing improved surgical insurance benefits for the employees of the Bank.	1
Letter to Bank of Idaho, Boise, Idaho, approving the establishment of a branch in Lewiston Orchards, Idaho. (For transmittal through the Federal Reserve Bank of San Francisco)	2

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Letter from Congressman Mills. In a letter addressed to Chairman Martin under date of January 13, 1958, Congressman Mills of Arkansas discussed the problem of appropriate actions in the field of taxation and flexible credit policy and urged that the Board give serious consideration to more vigorously expansionary monetary and credit actions in the immediate future. He suggested that if such actions were not taken, persistent recessionary developments would result in increasing pressure for tax reduction, to which the Congress might accede. In this connection he referred to a comment by Chairman Martin to the effect that the monetary authorities should be given an opportunity to cope with any recessionary trends before tax reduction was undertaken, and also to certain recent comments by members of the banking community to the effect that Federal Reserve actions had not been sufficiently vigorous to restore conditions under which an expansion of economic activity might be resumed. Copies of this letter had been distributed to the members of the Board, along with a draft of possible reply which would summarize recent Federal Reserve actions and would express the intent of the Board to take such further flexible action as in its judgment appeared to be called for in the light of economic and financial developments.

During a discussion of the proposed reply, in the course of which Mr. Thurston, Assistant to the Board, joined the meeting, question was raised whether the nature of Congressman Mills' letter was such as to require a formal reply from the Board. In this connection, reference

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was made to the language of the letter and to the fact that Chairman Martin was scheduled to testify before the Joint Economic Committee on February 7, 1958, concerning the President's Economic Report, at which time it would be possible for him to make such statements as he might desire.

Accordingly, Chairman Martin suggested that, as an alternative to a formal reply, he could write a personal letter to Congressman Mills acknowledging receipt of the January 13 letter, expressing appreciation for the indication of his thinking, and saying that he (Chairman Martin) would keep in touch with Mr. Mills.

There was unanimous agreement with this suggestion.

Report on S. 2824. Pursuant to the understanding at the meeting on January 15, 1958, there had been distributed to the members of the Board a further revised draft of letter to the Chairman of the Senate Banking and Currency Committee concerning S. 2824, a bill which would amend the Employment Act of 1946. The draft now before the Board would cite as being in the public interest an amendment to the Employment Act of 1946 which would make it clear that national economic policy is also concerned with preserving the purchasing power of the dollar. The words "also concerned with" would be substituted for the words "directed toward" which were contained in the previous draft.

The discussion of the latest draft was devoted principally to developing language which would avoid any implication that the Board

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would regard an amendment to the Employment Act along the lines of S. 2824 as representing a change in existing policy. It was also deemed important to retain in the letter a statement that careful consideration should be given to the wording of any legislative directive.

After several suggestions had been made for changes in the language of the letter in order to state the Board's position as specifically as possible, Mr. Thurston was requested to submit another draft of letter for consideration at the meeting tomorrow.

Answers to questions raised by Congressman Patman. In connection with Chairman Martin's appearance at the hearings on the proposed Financial Institutions Act, Congressman Patman handed him on August 6, 1957, a list of questions dealing with various subjects. Drafts of answers to questions 28 and 30-44 had been distributed to the members of the Board with a transmittal memorandum from Mr. Carpenter dated January 13, 1958, which pointed out that the answer to question 29, relating to transactions in the System Open Market Account, had already been sent, along with answers to 19 questions concerning the destruction of money which were contained in a separate list. The Secretary of the Federal Open Market Committee was reported to be distributing to the members of that Committee drafts of answers to questions 1-27, all of which related to open market matters.

Discussion of the proposed answers was directed principally to the reply to question 44, having to do with the reasons why the Board

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avored, on balance, passage of the Financial Institutions Act. It was understood that Mr. Hackley would submit alternative revised drafts of the response to this question, one of which would retain a detailed listing of the provisions of the Act specifically endorsed by the Board while the other would handle the matter on more of a summary basis. In addition, agreement was reached on a minor change in the answer to question 42 and it was understood that Mr. Hackley would review and perhaps suggest certain revisions in the answers to questions 30, 32, and 33.

Messrs. Sherman and Shay then withdrew from the meeting.

Proposed portrait. In a letter addressed to Chairman Martin under date of January 9, 1958, Chairman Prall of the Federal Reserve Bank of Chicago stated that the Bank's directors were considering a suggestion that a portrait of former President Young be commissioned and that the Board's views would be appreciated. The letter had been circulated to the members of the Board prior to this meeting.

In a discussion, reference was made to certain other instances where portraits of former Reserve Bank directors or officers had been authorized, sometimes without previous consultation with the Board of Governors, and it was noted that the suggestion at the Chicago Bank apparently arose because of the fact that the Federal Reserve Bank of New York recently unveiled a portrait of former President Sproul. While it was the consensus of the Board that it seemed doubtful whether

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expenditures for portraits of former Federal Reserve Bank directors and officers represented an appropriate outlay of Bank funds, question was raised about the advisability of writing to the Chicago Bank along such lines, particularly in view of the incident at New York. Consideration also was given to the appropriate sphere of authority of the boards of directors of the Federal Reserve Banks and the relationship of that question to a situation of this kind. The further thought was expressed that it would be inadvisable to seem to discriminate against Reserve Banks which sought the Board's advice before going forward with an expenditure of this nature. In the circumstances, the suggestion was made that Chairman Prall might be requested to ask the Chicago directors to defer a decision regarding the proposed portrait of Mr. Young until the System-wide aspects of the matter had been discussed at a meeting of the Conference of Chairmen of the Federal Reserve Banks. In this connection, it was understood that present plans contemplated a meeting of the Conference this spring.

Chairman Martin expressed the view that, if it were decided to discuss the subject with the Reserve Bank Chairmen, the Board should be prepared to make a positive statement.

While the discussion concluded without a definite course of action having been decided upon, Chairman Martin was authorized to talk informally with Chairman Prall and to make such statements as seemed to him appropriate in the light of this discussion.

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Messrs. Thurston, Thomas, Leonard, and Young then withdrew from the meeting.

Discount rates. Chairman Martin referred to the discussion at the meeting of the Board on January 17, 1958, concerning the action taken by the directors of the Philadelphia Reserve Bank to establish a discount rate of 2-3/4 per cent, subject to the Board's approval, and to the telegram which was sent to the Reserve Bank Presidents informing them that such a rate had been established by the Philadelphia directors. He said that he had since received a telephone call from the Chairman of the Cleveland Bank, who was going to call a special meeting of that Bank's Board of Directors this Thursday, that he told Chairman Van Buskirk he did not want to influence him in any way, and that he also told Mr. Van Buskirk that he did not know how the Board of Governors would act on the rate established at Philadelphia. He had also received a telephone call from the President of the St. Louis Reserve Bank, who expressed the intention of recommending a rate reduction to his directors, and from the President of the Atlanta Bank, who favored a reduction of the discount rate and was inclined to feel that it should be accompanied by a reduction in reserve requirements against both demand and time deposits.

Chairman Martin went on to say that he thought he should inform the Secretary of the Treasury of the action taken by the Philadelphia directors and state to him that the Board was going to discuss the

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matter this week. The purpose of this would be simply to receive any comments that the Secretary might care to make.

Chairman Martin also stated that President Hayes of the New York Reserve Bank, who had been informed by the Philadelphia Bank of the action taken by that Bank's directors, called on the telephone last Friday, at which time he was disposed to feel that a reduction in the discount rate should be deferred until immediately after the Treasury financing. It was Mr. Hayes' opinion that at such time it might be appropriate also to reduce reserve requirements for central reserve city banks to the level prevailing for banks in reserve cities.

In further comments, Chairman Martin referred to the fact that committees representing the commercial banks, investment banking, and other financial organizations would arrive in Washington at the beginning of next week for the usual conferences at the Treasury about the forthcoming Treasury financing. In view of the envisaged schedule relating to the Treasury financing, it appeared that if action were not taken to reduce the discount rate this week, or at least by next Monday, such action might not be feasible until after the first of March. In this connection, Chairman Martin added that in his conversations with the Secretary of the Treasury he had not thus far made any reference to the action taken by the Philadelphia directors.

The particular question which he wished to raise at this time, Chairman Martin said, was whether there was any feeling on the part

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of the other members of the Board that it would be desirable to call a special meeting of the Federal Open Market Committee later this week or to hold a telephone meeting of the Committee in order to explore the course which open market policy should take in the present circumstances.

None of the other members of the Board were of the opinion that the circumstances were such as to require a special meeting of the Open Market Committee or a telephone conference.

There followed a further general discussion of reasons which might be given for and against favorable action on the rate established by the Philadelphia directors, following which the meeting adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Appointment

Henry B. Hummel as Clerk in the Office of the Secretary, with basic annual salary at the rate of \$4,485, effective the date he assumes his duties.

Salary increases, effective January 26, 1958

Edwin J. Swindler, Economist, Division of Research and Statistics, from \$6,115 to \$6,250 per annum.

J. Cortland G. Peret, Economist, Division of Research and Statistics, from \$6,605 to \$6,820 per annum.

Florence A. Norman, Relief Cook, Division of Administrative Services, from \$3,125 to \$3,210 per annum.

Gertrude H. Price, Cafeteria Helper, Division of Administrative Services, from \$2,675 to \$2,750 per annum.

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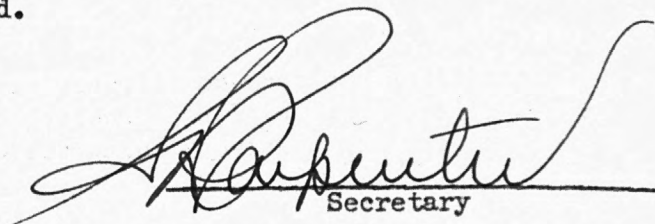
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Change in employment status

Susan O. Hoffman, Statistical Clerk-Typist, Division of Research and Statistics, from a full-time basis to a half-time basis, effective January 20, 1958.

Governor Shepardson also approved on behalf of the Board today a letter to The Brookings Institution nominating Mr. Farrell, Assistant Director, Division of Bank Operations, to participate in the second conference for executives to be held at Williamsburg, Virginia, March 16-28, 1958.

Pursuant to the action taken by the Board on December 20, 1957, a letter, of which a copy is attached as Item No. 3, concerning extension of the detail to the Board of Mr. Arthur Leff, Hearing Examiner, was sent today to the National Labor Relations Board.


Secretary

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

Item No. 1
1/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 20, 1958

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

Dear Mr. Allen:

In accordance with the request contained in your letter of December 26, 1957, the Board of Governors approves the additional annual expenditure of approximately \$12,000 involved in providing improved surgical insurance benefits for the employees of your Bank.

It is noted from your letter that the additional cost to the Bank for the period March 1 to December 31, 1958, is approximately \$10,000 for which provision was made in the 1958 budget.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 2
1/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1958

Board of Directors,
Bank of Idaho,
Boise, Idaho.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Thain Road and Burrell Avenue, Lewiston Orchards, Idaho, by Bank of Idaho, Boise, Idaho, provided the branch is established within one year from the date of this letter and that formal approval of the Commissioner of Finance of the State of Idaho is effective at the time the branch is established.

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
1/20/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1958

National Labor Relations Board,
Washington 25, D. C.

Attention Mr. Arthur H. Lang

Gentlemen:

Reference is made to the detail to the Board of Governors of Mr. Arthur Leff, Hearing Examiner, GS-15, previously agreed to by you under letter dated January 22, 1957, and extended by your letter of July 8, 1957.

Under the terms of Mr. Leff's detail, he was made available to this Board for a 6-month period beginning February 1, 1957, to preside at one or more hearings ordered to be held under the Bank Holding Company Act of 1956. It was agreed that the National Labor Relations Board would be reimbursed for Mr. Leff's salary at the rate of \$12,690 per annum, and for any travel expenses involved, salary reimbursement to be made only for the time in which Mr. Leff was actually engaged in connection with the said hearings. Under the extension of Mr. Leff's detail he was made available to this Board for an additional six-month period beginning August 1, 1957.

It now appears that Mr. Leff's services will be required for an additional period of time. It is difficult at this time to predict the precise additional time which will be required, but it is believed that an additional period of six months would reasonably cover such need.

Therefore, the Board of Governors requests that the National Labor Relations Board extend Mr. Leff's detail for an additional period of six months beginning February 1, 1958, on the same basis as the original detail as set forth in a letter from this office, dated January 22, 1957.

It will be appreciated if you will confirm this extension of the reimbursable detail in order that the necessary arrangements can be made with the Civil Service Commission in connection with confirmation of the extension of Mr. Leff's services.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.