

Minutes for February 21, 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><i>M</i></u>	_____
Gov. Szymczak	<u>X</u> <i>[Signature]</i>	_____
Gov. Vardaman	<u>X</u> <i>[Signature]</i>	_____
Gov. Mills	<u><i>[Signature]</i></u>	_____
Gov. Robertson	_____	<u>X</u> <i>R</i>
Gov. Balderston	<u>X</u> <i>CCB</i>	_____
Gov. Shepardson	<u>X</u> <i>lees</i>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, February 21, 1958. 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. Shepardson

Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Economic Adviser to the Board  
Mr. Young, Director, Division of Research and  
Statistics  
Mr. Hackley, General Counsel  
Mr. Koch, Associate Adviser, Division of Research  
and Statistics  
Mr. Dembitz, Research Associate, Division of  
Research and Statistics

Also present were Messrs. Daniel W. Bell, M. Monroe Kimbrel, L. M. Schwartz, and Evans Woollen, Jr., members of the special committee on legal reserve requirements of the American Bankers Association, Joseph C. Welman, President of the Association, and E. Sherman Adams, J. O. Brott, and G. Russell Clark, officers of the Association.

Reserve requirements. Chairman Martin began the meeting by recalling that he had encouraged the American Bankers Association to make a study of member bank reserve requirements and stating that the proposal subsequently developed by the Association's Economic Policy Commission represented a very useful contribution to the thinking on the subject, particularly the longer-run aspects of the plan. He went on to say that the Board had studied the plan carefully, that there were some differences

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of opinion within the Board regarding various parts of it, but that he himself regarded the broad framework of the study as sound. If it were possible to have a clean slate on which to write, it might well be that the plan could be regarded as ideal. However, the problem of moving toward the objectives of the proposal presented many difficult problems, especially in the light of the current world situation and its many uncertainties. There also had to be taken into consideration the latitude of movement permissible under the Board's present statutory authority and the extent to which it appeared necessary to broaden that authority. Thus, while there might be general agreement that the present levels of reserve requirements were too high for the long run, there were many difficult problems of transition to be taken into account.

Chairman Martin then discussed the development of the Board's thinking on the subject of reserve requirements and outlined the type of legislation which the Board was now inclined to favor, his remarks being along substantially the same lines as those which he made at the meeting of the Board and the Federal Advisory Council on Tuesday, February 18.

There followed some discussion for the purpose of bringing out the effects of operating under a plan such as Chairman Martin had outlined, with emphasis upon the extent to which the Board in its discretion could move over a period of time toward the objectives suggested by the proposal of the American Bankers Association. These comments also developed reasons why the Board would be averse to any plan which included a target

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date for the achievement of the objectives set forth in it. Further discussion made it clear that the Board would not be prepared to go along with a plan which had uniformity of reserve requirements as its central objective, that the Board had found it difficult to agree upon any factor which would serve as the appropriate criterion of uniformity, and that the Board's objection to uniformity would be particularly strong if it were defined as a system under which all banks, regardless of size or the character of business transacted, were subject to the same reserve requirements.

Mr. Bell then stated that the American Bankers Association did not want to go forward on its own with reserve requirement legislation, that it wanted to cooperate with the Board, and that it would like if possible to reach agreement with the Board on some proposal. He felt that the Association would want to study the Board's plan and afterward have further discussion with the Board. He then asked whether the Board felt that it needed all of the leeway on reserve requirements now contained in the law.

Chairman Martin's reply was to the effect that the Board had considered this aspect of the matter at length, that he did not think that anyone considered this very important under present conditions, and that the Board's main concern was that a target date not be established for any program of reserve requirement changes, for there would then be a tendency to attempt to measure progress under the program



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against the target date in such a way as to put the Board in a difficult position. To this Governor Vardaman added that in his opinion the introduction of specific goals in proposed legislation would tend to create apprehension and lessen the chances of obtaining legislation.

Governor Balderston suggested that thinking in terms of principles rather than specific programs would tend to increase the areas of agreement. He judged that everyone in the room would like to see bank reserves used with greater efficiency in the future in order to foster further growth of the economy, and he noted that this was almost the central philosophy of the analysis made by the Economic Policy Commission. If there was agreement with this principle, the remaining problem was to devise a plan which would permit working over a period of time toward a lower level of reserve requirements. Due to the possibility of so much public misunderstanding in this area, he was sympathetic with the thought that the simplest possible kind of legislative proposal consistent with moving toward agreed upon objectives would be the best, and he also felt that the simpler the proposal the greater would be the chance of obtaining legislation. Therefore, he favored a legislative recommendation consisting of a vault cash proposal plus authority for the Board to make certain exemptions from the usual reserve classifications.

There followed additional comments on the purpose and effect of legislation such as outlined by Chairman Martin, after which Mr. Welman stated that any criticism of the Board's reluctance to lower reserve

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requirements had not been inspired by the American Bankers Association. He said that the Association was grateful for the opportunity to have its representatives meet with the Board and that he thought it would now be necessary to secure the reaction of others in the Association to abandoning any phase of the proposal that had been advanced by the Economic Policy Commission.

Chairman Martin responded that the Board would like to have the matter discussed further within the American Bankers Association during the next couple of weeks and that the Board would appreciate having any further comments, if possible, by the tenth of March. While nothing in writing had been prepared for distribution today, it might be possible to prepare some kind of an outline concerning the Board's plan that would be helpful to the Association in studying the proposal.

Chairman Martin also said he did not feel that any legislative proposal should be submitted as an ABA-Board plan. Instead, the Board and the Association each should be able to testify freely without feeling that it had broken faith with the other.

Mr. Adams inquired whether, in addition to a description of its plan, the Board could furnish the Association some explanation of the thinking behind it, particularly the reasons why the Board felt there should still be three classifications of banks for reserve purposes. The Economic Policy Commission, he noted, had reached the conclusion that the classifications no longer served any useful purpose and it would be helpful in reconsidering that point to have the Board's reasoning.

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Chairman Martin replied that he would not care to attempt an intellectual defense of the geographical distinctions. However, in moving toward its objectives the Board would be unwilling to accept a basis of reserve requirements that did not make some differentiation between the very small and the very large bank. Neither had the Board yet developed an exact formula for establishing reserve requirements. In his own thinking, he said, he came back to the point that there are certain existing classifications, and as an initial step he would rather make exceptions than to become involved in argument as to whether any plan which was advanced favored the large bank or the small bank, especially when the Board had not yet discovered a satisfactory definition of uniformity. He added that the Board would consider whether something could be prepared that would be useful to the American Bankers Association.

Mr. Adams asked if the Board would be willing to specify in any memorandum the parts of the ABA proposal which were acceptable and those which were not, and in response Governor Vardaman questioned whether this would be advisable. Changing conditions, he suggested, might alter anything that the Board said at the present time.

Mr. Woollen inquired whether the Board's alternative plan involving the possible establishment of additional gradations of reserve requirements would not be burdensome from the administrative standpoint, to which Chairman Martin replied that there were differences of opinion on that point. Some felt that the plan would be feasible and not unduly burdensome

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administratively, and that the principal question was whether the Congress would be inclined to give the additional authority to the Board.

Mr. Kimbrel inquired whether he was correct in his understanding that if the Board decided to present legislation such as outlined, this would represent the Board's own endeavor, and Chairman Martin answered in the affirmative.

Mr. Adams then asked what the Board's attitude would be if the plan of the American Bankers Association were introduced in the Congress, and Chairman Martin replied that the Board would have to oppose the plan, although in the friendliest possible way. In the meantime, he said, the Board would be supporting its own plan.

After some discussion based on the consideration that the Board had given to seeking authority which would permit distinguishing between savings and other time deposits for reserve purposes, Mr. Adams referred back to the answer the Chairman had made to his question and said that if legislation such as the Board had in mind should be enacted the ABA plan might well be finished because the enactment of vault cash legislation would diminish the active support of many banks. If the Board was sympathetic with the long-run objectives of the ABA plan, he said, the choice appeared to lie between simple legislation and legislation of a little more complicated nature which would provide somewhat more assurance of meeting the objectives.



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Chairman Martin responded that he thought the objectives could be achieved at the earliest possible date by the course that the Board was suggesting.

Mr. Bell inquired whether the Board would be willing to say that the broad objectives of the ABA plan were acceptable but that the plan was something that must be accomplished in steps over a period of time. To this Governor Vardaman responded that he would recommend silence on the part of the Board as far as the ABA plan was concerned.

Mr. Adams then made further comments in which he suggested that the setting of a target date might help to change the general philosophy of changes in reserve requirements. It now seemed to be understood that reductions in reserve requirements were made only in a time of recession but a pattern of constant change might alter that philosophy. If inhibitions prevented reducing reserve requirements except under certain conditions it might take a long time to reach the objectives, but if it were established that reductions were going to be made periodically it might be possible to move each fall to supply reserves for the seasonal credit demand. In other words, that would be the normal thing to do in the absence of unusual circumstances.

Chairman Martin commented that what disturbed the Board was how to accustom people to thinking in broad terms instead of current conditions. In this respect he felt that the ABA study had made a valuable contribution. He doubted whether work on the subject would have progressed as far as it had if the ABA plan had not been prepared.

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Mr. Bell responded that the American Bankers Association would give further study to the matter, that permission to talk with Mr. Thomas would be appreciated, but that he did not know whether it would be possible to clear comments through the administrative machinery of the Association by the tenth of March.

Chairman Martin then concluded the discussion by saying that the Board would be glad to have another meeting with the Association's representatives and that it might not be necessary to hold absolutely to the March 10 date.

During the foregoing discussion Mr. Carpenter, Secretary of the Board, entered the room and at its conclusion the representatives of the American Bankers Association withdrew along with all of the members of the Board's staff except Messrs. Carpenter, Kenyon, Thomas, and Hackley.

Discount rates. Unanimous approval was given to telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates on discounts and advances in their existing schedules:

Minneapolis	February 19, 1958
New York	February 20, 1958
Philadelphia	February 20, 1958
Chicago	February 20, 1958

Request of First Bank Stock Corporation (Item No. 1). In a letter dated February 14, 1958, Counsel for First Bank Stock Corporation, Minneapolis, Minnesota, requested a further extension to March 10, 1958, of the time for

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the Corporation to submit to the Hearing Examiner proposed findings and conclusions and supporting brief in connection with the hearing under section 4(c)(6) of the Bank Holding Company Act relating to First Banccredit Corporation and First Service Agencies, Inc. A memorandum from Mr. Solomon dated February 20, 1958, which had been distributed to the members of the Board, recommended that the request be granted. The request for an extension of time appeared to be in effect a motion to preserve the applicant's position until the hearing could be reopened, since the incoming letter indicated that First Bank Stock wished to present further evidence in the light of the Board's recent decision on the applications of General Contract Corporation.

Pursuant to Mr. Solomon's recommendation, unanimous approval was given to an order in the form attached hereto as Item No. 1, with the understanding that copies would be sent to the appropriate parties.

Reserve requirements. During a discussion of the request made by the representatives of the American Bankers Association for information in writing concerning the Board's tentative legislative proposal on reserve requirements and the underlying reasons, Mr. Hackley recalled that at the meeting of the Board on February 17, 1958, it was decided to change the draft of legislation insofar as it related to the broadening of the Board's exemptive authority so as to eliminate the provision that permission to carry lower reserve balances could be granted "in individual cases" and thus provide that such permission must be granted "under

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regulations of the Board." This would suggest the necessity for developing formulas, which might be as difficult to devise as the Board's 1947 rule for the classification of central reserve and reserve cities. Furthermore, if the Board was thinking in terms of minimum legislation the simplest change would be one which would merely broaden the Board's present authority covering banks in outlying sections of central reserve or reserve cities. Then the Board, on the basis of its new authority, could establish general standards in due course after a pattern of actions had evolved.

After some discussion, in the light of Mr. Hackley's comments, of the reasons why the Board had decided to eliminate the provision for action in individual cases, it was agreed to restore the draft legislation to its earlier form.

Mr. Hackley then referred to the alternative form of draft legislation under which the Board would be authorized to establish additional gradations of reserve requirements and, after reviewing the provisions of the present law, said that it might be charged that to grant a bank permission to carry lower reserve balances at intermediate levels would represent changing the bank's reserve requirements without regard to the standards already in the law. Also, as had been pointed out by Governor Shepardson, the legislation as drafted would indicate that there could be any number of gradations. If the Board should so desire, the draft could be amended to narrow this down to one or two additional levels.



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At this point Chairman Martin stated that he was now leaning in the direction of the form of legislation that originally had been spoken of as the first alternative; that is, the form of legislation which would contain no authority for additional levels of reserve requirements.

Governor Mills noted that all of the Federal Reserve Banks heard from since the joint meeting of the Board and the Presidents seemed to favor that alternative, and Governor Shepardson then stated that if this form of legislation appeared to be the most that the Board could reasonably hope to obtain, he would not hold out for the other alternative.

Continuing this line of thought, Chairman Martin said that as the discussion had developed in terms of what the Board could hope to get, it seemed clear that the weight was toward the more basic form of legislation.

Governor Balderston then said that he shared the view of Governor Mills that it would be to the Board's advantage to minimize the issues to be debated.

From the standpoint of what should be transmitted to the American Bankers Association, this trend in the Board's thinking presented the question whether to give the Association the alternative forms of draft legislation or only the draft which was now preferred by the Board. Rather than transmitting the two drafts of legislation, it was suggested that the alternative draft could be mentioned in a memorandum relating to the Board's legislative plan which was to be prepared for the Board's

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consideration by Mr. Thomas. The discussion concluded with the understanding that a final decision on the material to be given to the American Bankers Association would be made when a revised legislative draft and the memorandum to be drafted by Mr. Thomas were available.

Mr. Carpenter then raised again the question whether the draft legislation ought to spell out the basis on which the Board could grant a member bank permission to hold lower reserve balances any further than to state that such permission could be granted on such basis as the Board might deem appropriate in view of the character and volume of business transacted by the member bank. This would eliminate language stating that for this purpose the Board might take into account the volume, composition, or activity of the deposits of a bank, or its location.

After some discussion it was agreed that the revised draft of legislation should be prepared in the form suggested.

The meeting then adjourned.

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

February 20

Appointment of Walker White, Jr., as Review Examiner in the Division of Examinations, with basic annual salary at the rate of \$8,990 and with commission as Federal Reserve Examiner, effective the date he assumes his duties.

Resignation of Margaret Ellis, Executive Assistant, Division of Research and Statistics, effective March 7, 1958.

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February 21

Transfer of Catherine B. Davian from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Research and Statistics, with an increase in her basic annual salary from \$4,345 to \$4,620, effective February 23, 1958.

Transfer of Davita C. Leister from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Research and Statistics, with no change in her basic salary at the rate of \$3,500 per annum, effective February 23, 1958.

Salary increase for Peggy Ann Long, Secretary, Division of Examinations, from \$4,080 to \$4,215 per annum, effective February 23, 1958.

Salary increases for the following persons in the Division of Administrative Services, effective February 23, 1958:

Andrew Fassino, Assistant Foreman of Laborers, from \$3,525 to \$3,610 per annum.

Everett Jones, Laborer, from \$3,340 to \$3,425 per annum.

Charles A. Noell, Guard, from \$3,300 to \$3,385 per annum.

George Psomos, Cafeteria Laborer, from \$3,340 to \$3,425 per annum.

Lyla E. Szillat, Operator, Key Punch, from \$3,685 to \$3,840 per annum, with a change in title to Operator, Tabulating Equipment.

Lloyd F. White, Chauffeur, from \$3,040 to \$3,125 per annum.

  
Secretary

UNITED STATES OF AMERICA

Item No. 1  
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BEFORE THE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

IN THE MATTER OF  
THE APPLICATIONS OF  
FIRST BANK STOCK CORPORATIONDOCKET NUMBERS  
BHC - 36, 37ORDER EXTENDING TIME WITHIN WHICH APPLICANT  
MAY SUBMIT TO HEARING EXAMINER PROPOSED FINDINGS  
AND CONCLUSIONS, AND SUPPORTING BRIEF

Additional time having been requested by the Applicant, First Bank Stock Corporation, within which to submit to the Hearing Examiner proposed findings and conclusions, and supporting brief, and it appearing to the Board that such request should be granted, it is hereby ORDERED that the time within which the Applicant may file such proposed findings and conclusions, and supporting brief, be, and the same hereby is, extended to and including March 10, 1958.

This 21st day of February 1958.

By order of the Board of Governors.

(Signed) S. R. Carpenter

(SEAL)

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S. R. Carpenter,  
Secretary.