

Minutes for October 23, 1958

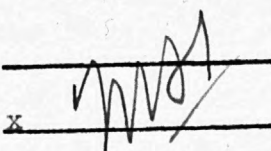

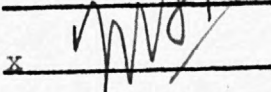
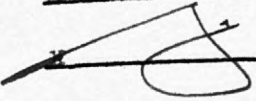
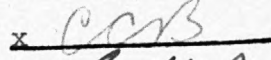
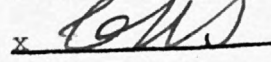
To: Members of the Board
From: Office of the Secretary

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

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

Page 1 Approval of a discount rate of 2-1/2 per cent for the Federal Reserve Banks of Philadelphia, Richmond, St. Louis, Minneapolis, and Dallas

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 
Gov. Szymczak	x 	
Gov. Vardaman ^{1/}		x
Gov. Mills		x 
Gov. Robertson	x R	
Gov. Balderston	x 	
Gov. Shepardson	x 	

^{1/} In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

The Board met in the Board Room at 11:30 a.m. on October 23, 1958, with Governors Szymczak, Robertson, and Shepardson present. At 11:52 Vice Chairman Balderston joined the meeting by means of a telephone connection from Boston, Massachusetts.

PRESENT: Mr. Balderston, Vice Chairman (by telephone at 11:52 a.m. from Boston)

Mr. Szymczak
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Molony, Special Assistant to the Board

Discount rate. At Governor Szymczak's request the Secretary reported a telephone call he had received at approximately 11:25 a.m. from First Vice President Hilkert of the Federal Reserve Bank of Philadelphia, who stated that the board of directors of that Bank had voted to increase the discount rate from 2 to 2-1/2 per cent effective the day following approval by the Board of Governors. The Secretary reported that Mr. Hilkert had stated that, while the action by the directors was unanimous and was not contingent upon similar action at this time by any other Reserve Bank, the directors had requested that there be transmitted to the Board an explanation that their action was looked upon as a technical financial money market move for the purpose of adjusting the discount rate to other rates in the money market. It was not their feeling that general economic conditions, particularly those in the Philadelphia District, called for additional restrictive credit measures at this particular time; in fact, the directors probably

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would not have acted to increase the rate if they had believed that it would be interpreted as action based on Third District conditions. They also expressed the strong hope that other Reserve Banks would take action which could be announced at the same time that their action on the discount rate was announced if the Board approved the increase, and they urged that in making the announcement there be provided an eloquent explanation to make clear to the press that the increased rate represented a technical money market adjustment rather than a move designed to bring about greater restraint on economic activity.

Governor Robertson stated that he felt the increased rate should be approved by the Board but that announcement of the increase should be made in the usual manner without any statement of interpretation by the Board of its action in approving the rate.

Governor Shepardson said that as he recalled the discussion at the meeting of the Federal Open Market Committee on October 21, 1958, there was a general feeling among the members of the Committee and the Reserve Bank Presidents that a move in the discount rate such as the Philadelphia Directors had voted was justified at this time on a technical basis. He was not sure as to the extent to which the Board should offer supplementary information in connection with the announcement of any increase that it might approve.

Mr. Molony inquired whether Governor Robertson's comment was directed to the Board's formal statement of a rate increase or whether it applied to informal discussions with representatives of the press.

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Governor Robertson responded that he would take the approach he had suggested in either case. He felt the action should speak for itself.

Governor Szymczak stated that Governor Shepardson's comment was in line with the views expressed at the Open Market meeting on October 21 when, time and again, the statement had been made that a change in the discount rate at this time would represent a technical adjustment. This attitude was fortified by the consensus that had been expressed by the Open Market Committee that the degree of restraint applied through open market operations should be continued during the next three-week period at about the same level as that which had prevailed recently.

Mr. Riefler stated that it had been made clear at the October 21 meeting that if the directors of the New York Reserve Bank were to take action now on the discount rate, it would undoubtedly be on the basis that it represented a technical adjustment only. He felt that the discussion at that meeting amounted virtually to a commitment that any such action would be in the nature of a technical adjustment.

Governor Robertson said he would not object to any Reserve Bank discussing the basis of its action but he would object to a statement from the Board that attempted to interpret either the Board's action or the actions of the individual Reserve Banks. He went on to say that he had not been present at the Open Market meeting when this was discussed and that, if there was anything amounting to a commitment on this point at that time, he would consider that to have been a mistake because he did not think the Open Market Committee could make a commitment on a thing

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like this. In any event, he did not think the Board should adopt a policy of explaining why a discount rate change was made at the time it was announced.

Governor Shepardson noted that whenever a change in rate was made there was some discussion in the press of the basis of the change, and he inquired of Mr. Molony as to the handling of the announcement with press representatives.

Mr. Molony said that the message reported from the Philadelphia Bank would suggest that, in addition to the normal sort of announcement that would be put out, there might be an additional written statement from the Board as to the reason for the change. His personal view was not to favor that procedure, partly because it would set a precedent that would be undesirable. However, the normal procedure would be to respond to questions from the press at the time they were told of the action, giving background information that would help them in writing their stories. It had been customary to answer questions as best that could be done. On the basis of the discussion at the Open Market meeting on October 21, he would have thought this usual procedure would be followed in discussing any announcement that might be made at this time. He recalled that there had been an extraordinary interest displayed at that meeting in the matter of an announcement to be made in the event any of the Reserve Banks took action on the discount rate.

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Governor Shepardson suggested that, if the rate change were approved, Mr. Molony in presenting it to the press might be expected to answer questions in the manner he had described.

To this, Governor Robertson inquired what would be meant by a "technical adjustment" and whether that would signify that the move was without credit significance but was being made only because other interest rates had moved up.

At this point a telephone connection was established with Vice Chairman Balderston, who was at the Federal Reserve Bank of Boston.

Governor Szymczak reviewed for Governor Balderston the reason for this meeting and the discussion that was in progress regarding the method of announcement of the rate increase, in the event the Board approved the action of the Philadelphia Directors.

Governor Balderston stated that, if any explanatory statement were included in the Board's release at this time, the public would expect an explanatory statement in the future. He questioned whether it was desirable to set such a precedent, even though the report, "Federal Reserve Policy and Economic Stability", prepared by Dr. Asher Achinstein of the Legislative Reference Service of the Library of Congress and released a few days ago, urged that the Federal Reserve make explanatory statements of its credit actions at the time they were taken. Governor Balderston went on to say that he felt it more in keeping with central banking practice to let actions speak for themselves.

Governor Szymczak mentioned the discussion at the Open Market meeting on October 21 and suggested that that might alter the situation at this particular time.

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Governor Shepardson said that he thought that discussion could be accommodated without including anything in the written statement beyond the normal amount of information but through having Mr. Molony or Mr. Thurston follow the customary procedure described for answering questions to the best of their ability to provide background to the press for writing their stories.

Governor Balderston stated that he favored this procedure, and Governor Szymczak said that it would seem satisfactory to him although he was not certain that it would meet the wishes of the Philadelphia Bank Directors.

Governor Balderston noted that several other Reserve Banks were having meetings of directors today and that, while the Board could not be sure at this time as to which, if any, would take action to change the discount rate, it should not be assumed that one explanation would serve to apply to all of the Reserve Banks. His view was that the particular Reserve Bank acting on a rate should be in the position of explaining its own actions, when and if the Board approved the new rate. The function of the Board was to review and determine, and since the Board might be reviewing and determining four or five rates at the same time, it would seem difficult to provide any single explanation for the action even if the Board were to conclude that it was wise to have a statement from Washington, which he doubted.

Governor Szymczak noted that precedent was all against an explanation by the Board of its approval of a discount rate change.

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Governor Balderston then stated that he gathered that all four members of the Board who were participating in this meeting would favor limiting an official announcement of a discount rate change to the form customarily used but that they would favor having Mr. Molony respond to questions in the customary manner.

To this Governor Robertson responded that the Board should be extremely careful on this point and that in no circumstances would he approve a formal statement by the Board of the reasons for action it might take. He also felt that it was undesirable to have a "spokesman" for the Board. On the other hand, questions that might be presented to Mr. Molony should be responded to with every fact that could possibly be given out short of attempting to explain the significance of a given action. If an individual Reserve Bank wished to put out a statement of its action, that was a matter for it to determine. In response to a question from Vice Chairman Balderston, Governor Robertson said that he would have no objection to Mr. Molony's giving out any facts that would help the press in making their own interpretations of an action by the Board, but he would not favor having Mr. Molony explain that an increase in the rate at this time was made for technical reasons or for any other reason. Searching for a reason for his own action, Governor Robertson said that the circumstances of the day warranted action to increase the discount rate. He would not go farther than that, but the emphasis should be on economic conditions and the use of a credit instrument in the light of these conditions.

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Governor Balderston said that the responsibility for action on the discount rate devolved on the directors of the Federal Reserve Banks and on the Board in its review and determination of the rate. For his part, he would favor approving the rate fixed by the Philadelphia directors, but he would not give an official explanation of the reason for the action at this time.

At this point the discussion turned to the types of questions that Mr. Molony might receive when he met with the press on a rate action, including questions concerning the actions of individual Reserve Banks in fixing rates or not fixing them.

There was also discussed the question whether the Board should approve the action taken by the Philadelphia Directors at this time or whether it should defer acting until it was known whether other Federal Reserve Banks also would act today.

On the latter point, all of the members of the Board participating in the meeting agreed that an increase in the discount rate from 2 to 2-1/2 per cent was justified at this time and that, accordingly, the action of the Philadelphia Directors should be approved, provided at least three Reserve Banks acted in the course of the day to fix a rate of 2-1/2 per cent. It was also agreed that a rate of 3 per cent should be approved for advances under section 10(b) of the Federal Reserve Act, along with appropriate subsidiary rates.

It was further agreed that if advice of such action was received from not less than three Reserve Banks an announcement of an increase in

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the rate should be given to the press at 4:00 p.m. EDST, that the usual form of press statement would be issued by the Board, that a wire of advice would be sent to all Federal Reserve Banks and branches, and that a statement of the Board's action would be filed with the Federal Register.

In taking this action it was understood that Mr. Thurston and Mr. Molony would follow their customary procedure in answering questions that might be presented from members of the press concerning any announcement that might be issued later in the day.

Secretary's Note: During the course of the day advice was received from the Federal Reserve Banks of Richmond, St. Louis, Minneapolis, and Dallas that the directors of those Banks had taken action to increase their discount rates to 2-1/2 per cent, as had the Philadelphia Bank, all to be effective on the first business day following approval by the Board. Accordingly, the Secretary advised the five Reserve Banks that the Board approved the following rates, effective October 24, 1958:

On discounts for and advances to member banks under sections 13 and 13a for Federal Reserve Banks of Philadelphia, Richmond, St. Louis, Minneapolis and Dallas--2-1/2 per cent;

On advances to member banks under section 10(b) for each of these banks--3 per cent;

On advances to individuals, partnerships, and corporations, other than member banks under last paragraph of section 13 for Richmond--4 per cent; St. Louis--3-1/2 per cent; Minneapolis--4-1/4 per cent; and Dallas--4-1/2 per cent;

Establishment without change of remaining rates in each Bank's existing schedule.

Thereupon the meeting adjourned at 12:28 p.m.


Secretary