

Minutes for February 16, 1959.

To: Members of the Board

From: Office of the Secretary

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

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u><i>[Signature]</i></u>	_____
Gov. Szymczak	x <u><i>[Signature]</i></u>	_____
Gov. Mills	x <u><i>[Signature]</i></u>	_____
Gov. Robertson	x <u><i>[Signature]</i></u>	_____
Gov. Balderston	x <u><i>CCB</i></u>	_____
Gov. Shepardson	x <u><i>[Signature]</i></u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Monday, February 16, 1959. 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. Sherman, 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. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Hill, Assistant to the Secretary

Letter to the Association of Registered Bank Holding Companies

(Item No. 1). After comments by Mr. Hackley, the Board approved unanimously a letter to the Association of Registered Bank Holding Companies in reply to a request from that organization for the Board's views on H.R. 2325, relating to bank mergers. A copy of the letter, which had been circulated to the Board in draft form prior to the meeting, is attached as Item No. 1.

Proposed emergency currency vault. There had been distributed

to the Board a memorandum from Mr. Farrell, Director of the Division of Bank Operations, dated February 13, 1959, regarding the proposed bill "To provide for payment by the Federal Reserve Banks of the cost of constructing a depository for the storage of Federal Reserve notes." In the light of comments sent to the Bureau of the Budget by General Services

2/16/59

-2-

Administration which suggested the desirability of an increase in the cost limitation, and after discussion with Mr. Farrell, the Treasury had advised him that it would have no objection to revising the proposed bill so as to increase the limitation from \$1.5 million to \$2 million. In view of these circumstances, the memorandum recommended that the Board authorize changing the pertinent phrase in the bill from "not exceeding \$1,500,000" to "not exceeding \$2 million".

It was agreed unanimously to inform the Treasury that the Board would have no objection to such a change in the proposed legislation.

Mr. Daniels then withdrew from the meeting.

Study by Joint Economic Committee. Mr. Shay advised the Board that Senator Douglas, Chairman of the Joint Economic Committee, had formally announced that the Committee would undertake a study with a view to determining whether the objectives of substantially full employment, economic growth and price stability could be reconciled. Mr. Shay said that he would have the announcement duplicated and distributed to the members of the Board.

Study of the Government securities market. Pursuant to the discussion at the meeting on February 13, 1959, Chairman Martin called on Governor Mills for a further statement on the question he had raised concerning the appropriateness of a study of the Government securities market as outlined in the memorandum discussed at the meeting of the Board on February 11.

2/16/59

-3-

Governor Mills stated that the question he again wished to raise was whether the Federal Reserve System should conduct what would amount to an investigation. From the minutes of the Technical Committee of the New York Money Market and also from the still unpublished study by the New York Stock Exchange, there appeared to be a movement on the part of both of those groups to disassociate themselves from any responsibility for what happened in the Government securities market last summer. In the Stock Exchange report some blame was cast upon the Federal Reserve System for its policies with respect to the supplying of reserves in the first half of 1958. If that reasoning was widespread, there would appear to be a question whether the System was in a good tactical position to conduct an inquiry that, at least in the opinion of critics, might seem to constitute an attempt to shift blame from the System to others. At worst, Governor Mills said, speculation is not illegal or criminal. That it had occurred in the Government securities market was unfortunate, but it was his offhand feeling that the System might be in error in undertaking an investigation that would bring before representatives of the Board individuals representing the elements in the market that might have guilt or blame attached to them. Furthermore, lack of the subpoena power raised the question whether those invited to appear would be willing to give information that they might feel would leave them in an unfavorable position. In these circumstances, Governor Mills

2/16/59

-4-

asked whether the Board should go further than to provide Congress with factual information, thus allowing the appropriate committees to decide whether to conduct any investigation themselves or delegate the function to the Federal Reserve System.

The Chairman then turned to Mr. Young, who distributed a revised version of the study outline. In discussing it, Mr. Young emphasized that the study was intended to be a joint project, with both the Treasury and the Federal Reserve participating from beginning to end. With respect to the questionnaire surveys, it now appeared to be desirable to broaden somewhat the number of respondent groups, but this would not expand greatly the scope of the survey work. With respect to the New York Stock Exchange study of members' participation in Government securities market activities last year, a draft of which had been supplied to the Board on a confidential basis, he noted that the study was defensive in tone and placed a large share of the responsibility for what had occurred on the Federal Reserve and the Treasury. Since it did not develop information on the scope of customer participation, the Board's staff was developing schedules designed to produce such information. The purpose of the proposed consultations with certain financial groups was to gain oral impressions as to just what happened, and why, in the period of speculative activity and to learn who those groups considered responsible. Although it might be expected that blame would be laid on both the

2/16/59

-5-

Federal Reserve and the Treasury, such consultations might also generate some public-spirited consideration as to how such an occurrence could be avoided in the future. As to the proposed staff analytical studies, of which there would be four, discussion with the Treasury and President Hayes of the Federal Reserve Bank of New York had found them strongly in support of a "team" approach, with each team comprised of representatives of the Board, the Treasury, and the New York Bank, even though this might take somewhat longer than to have the studies assigned to individuals.

Mr. Young felt that a target date of the first of May for substantial completion of the study might not be unreasonable. He recognized that the undertaking of a study such as planned would involve risks of the kind mentioned by Governor Mills. On the other hand, he said, legislative interest in a subject generally finds the staff of the interested committee or committees looking to the agencies concerned for information and assistance, which would indicate the desirability of being prepared as well as possible to deal constructively and in the public interest with the problem of preventing, insofar as possible, any recurrence of the kind of speculation that developed in the Government securities market last year.

After further discussion of the proposed study in the light of the comments by Governor Mills and Mr. Young, during which the responsibilities of the Federal Reserve System in this area were measured against the risks involved in proceeding along the lines indicated, Chairman Martin

2/16/59

-6-

suggested that, except for staff preparatory work, the study be held in abeyance pending discussion by the Board with Under Secretary of the Treasury Baird on Wednesday, February 18.

Secretary's note: The Board met with Mr. Baird on February 18, 1959, and at the conclusion of that meeting it was understood that the staff would proceed with the study.

Spring call. The Secretary reported that a letter dated February 10, 1959, had been received from the Comptroller of the Currency indicating his intention to make a spring call upon national banks for reports of condition. Accordingly, a telegram was sent to all Federal Reserve Banks on February 13 indicating the Board's intention to make a similar call upon State member banks.

The action taken in sending the telegram to the Reserve Banks was ratified by unanimous vote.

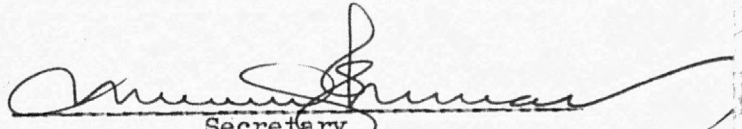
The meeting then adjourned.

Secretary's note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum dated February 11, 1959, from Mr. Johnson, Director, Division of Personnel Administration, that the Board adopt for its employees the "administrative leave" policy set forth in Civil Service Commission Mobilization Circular No. 5 which states, as a general policy applicable to all agencies of the Executive Branch of the Federal Government, that administrative leave shall be granted civilian employees who are prevented or relieved from reporting for duty because of disaster conditions in a national emergency.

2/16/59

-7-

Governor Shepardson also approved today on behalf of the Board the recommendations contained in a memorandum from Messrs. Farrell and Young dated February 9, 1959, (attached Item No. 2), pertaining to distribution and sale of the All-Bank Statistics volume.



Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
2/16/59

OFFICE OF THE CHAIRMAN

February 16, 1959.

Mr. Donald Rogers,
Executive Director,
Association of Registered Bank
Holding Companies,
730-15th Street, N. W.,
Washington 5, D. C.

Dear Mr. Rogers:

This refers to your letter of February 5, 1959, asking for my comments regarding your analysis of Congressman Celler's premerger notification bill, H.R. 2325, in so far as bank holding companies are concerned, and regarding a suggested amendment to that bill.

As you know, a number of other bills regarding the subject of bank mergers, but with various approaches, have been introduced in the present session of Congress. It is likely that, as in the past, the Board will be requested by the appropriate committees of Congress to submit its views with respect to these bills. In connection with consideration of similar bills in previous years the Board has indicated its position with respect to bank merger legislation, and you are doubtless familiar with that position. However, the Board has not yet had occasion to consider the exact nature of any statement that it may submit to Congress regarding the bills now pending.

In the circumstances, while I do not mean to seem uncooperative, I believe it would be preferable for me not to express any opinion at this time regarding the matters discussed in your letter. Your letter will be brought to the attention of the Board in connection with its future consideration of this subject; and in the meantime I am sure that the Board's staff will be glad to discuss technical aspects of the subject with you on an informal basis.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
2/16/59

Office Correspondence

Date February 9, 1959

To Board of Governors

Subject: Recommendation for distribution
and sale of All-Bank Statistics

From John R. Farrell and Ralph Young

The All-Bank Statistics volume is now in the process of being printed and is expected to be ready for distribution by mid-April.

It is recommended:

(1) That the complimentary distribution recommended by Mr. Leonard in his memorandum of October 29, 1954, be followed. His memorandum provided for furnishing the volume to the following groups: Federal Reserve Banks and branches; Federal Advisory Council; national bank, State bank, and Federal Deposit Insurance Corporation supervisory officials; banking and currency committees of the House and Senate; Joint Committee on the Economic Report; and a selected list of Government officials, foreign central banks, banking organizations, economists, and periodicals and newspapers. It is also planned to make the publication available upon request, without charge, to other Government officials, foreign central banks, and members of the press, and to public libraries and libraries of educational institutions.

(2) That the paperbound copies be sold for \$4.00 per copy. It should be noted that the only copies available for sale will be the paperbound ones; clothbound copies will be distributed, without charge, to groups or persons listed in the preceding paragraph.

The suggested sale price for the paperbound copies is based on an estimated unit-cost of \$3.95 for printing and mailing such copies. The estimated unit-cost of clothbound copies is \$4.50.