

Minutes for March 20, 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	<u>[Signature]</u>	x <u>(M)</u>
Gov. Szymczak	x <u>[Signature]</u>	<u>                    </u>
Gov. Mills	x <u>[Signature]</u>	<u>                    </u>
Gov. Robertson	x <u>[Signature]</u>	<u>                    </u>
Gov. Balderston	x <u>CCB</u>	<u>                    </u>
Gov. Shepardson	x <u>[Signature]</u>	<u>                    </u>

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, March 20, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Director, Division of Research  
and Statistics  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank  
Operations  
Mr. Molony, Special Assistant to the Board  
Mr. Noyes, Adviser, Division of Research  
and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. Hostrup, Assistant Director, Division  
of Examinations  
Mr. Benner, Assistant Director, Division  
of Examinations  
Mr. Daniels, Assistant Director, Division  
of Bank Operations  
Mr. Hooff, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and Chicago on March 19, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to the respective Banks.

Application of Marine Trust Company. Pursuant to the understanding at yesterday's meeting, further consideration was given to the application of The Marine Trust Company of Western New York, Buffalo,

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New York, to establish a branch at 2340 Niagara Falls Boulevard, in an unincorporated area of the Town of Tonawanda.

In supplementation of the information contained in the file that had been circulated to the Board, Mr. Nelson reviewed the site of the proposed branch, the relationship of that site to other offices of Marine Trust Company and offices of competing institutions, the proportions of Marine's offices and deposits to total bank offices and deposits in an area within a radius of about six miles from the site of the proposed branch, and the characteristics of the area that would be served by the branch. Since Marine already had a large part of the business in the area to be served, it did not appear to the Division of Examinations that the establishment of the branch would have any substantial effect on the competing banks.

Mr. Hackley stated that to the Legal Division this seemed to be another case in which the benefits that would be derived by the community from establishment of the branch must be weighed against any potential adverse effect on competition resulting from establishment of an additional office by a bank already having a clear majority of the deposits and offices in the area. As in a number of recent bank holding company cases, it was felt that a decision on the part of the Board to approve the branch probably would not be questioned, or reversed by the courts.

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Mr. Hexter expressed the opinion that from a purely legal point of view the Board would have grounds for a decision either to approve or to deny. A decision to approve would in all probability not be subject to any judicial review, but the likelihood of such review would be somewhat greater in the event of denial. The Board would have to rely, if it decided to turn down the application, on the ground that establishment of the branch would adversely affect potential competition in the area, and this might be regarded by the courts as unduly tenuous. Thus far, there had been little in the way of court decisions to afford an indication in that regard.

In response to a question by Governor Balderston, Mr. Hexter commented that the convenience of a community was always enhanced by having a banking office in the immediate area. However, with a number of banking facilities available within a radius of three or four miles, the residents of this particular area would not be disaccommodated greatly by the absence of additional facilities. On the other side of the picture, a person wanting to deal with a bank other than Marine would have to travel only a relatively short distance. In the Old Kent case, decided by the Board yesterday, the factor of community need seemed to be greater because of the longer distance to available banking facilities, but the effect of Old Kent's establishing a branch in that community might be potentially worse from the standpoint of competition.

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In response to a further question, Mr. Hexter expressed the view that the Marine application might be regarded more favorably if Marine were seeking to compete in an area not previously served by it, for that would tend in the direction of increasing competition. By the same token, if a competitor of Marine desired to establish a branch in this particular area, where Marine already had a majority of the facilities, that would clearly increase competition. However, if Marine established the proposed branch, that might have the effect of diminishing the possibility of more competition in the area.

Mr. Hackley expressed agreement, particularly with regard to the effect on potential competition. In terms of immediate effect, he noted that there were already other branches of Marine in the local area and that some of their deposits probably would be transferred to the new branch. In these circumstances, it appeared that there would be little immediate effect on competition. On the other hand, establishment of the Marine branch might have the effect of precluding the establishment of other banks or branches.

Governor Mills stated that he concurred in the favorable recommendation of the Division of Examinations. In his own thinking, he did not regard the competitive factor as of great importance in this particular case, which involved the establishment of another branch in an area that was essentially a suburb forming a part of the metropolitan Buffalo area. The applicant bank wished to extend its

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services in one enclave of the area and to provide facilities not now available to a particular community, and that seemed to him to be in order. As he saw it, to deny the application would in a sense amount to reversing the reasoning behind some of the decisions the Board had arrived at in approving the establishment of branches by subsidiaries of Marine Midland Corporation in other sections of the State of New York. A somewhat different problem, and the one of particular concern to him, was the gradual extension of Marine Midland banks into counties and banking districts of the State not previously served by that organization, for such extension could be detrimental to the competitive position of other banks. In those instances to date, it had been found that the Marine Midland subsidiary bank would control only a minor percentage of the banking offices and bank deposits of the area concerned, and the Board had properly found justification for approving the application. Nevertheless, this was a trend and a development that in his judgment deserved much more critical examination than the application before the Board today.

Governor Robertson stated that he would be opposed to granting the current application. In the Old Kent case decided yesterday, it appeared to him that the need for banking services was sufficiently great to offset the factor of reduced competition. In this case, it had been suggested by the staff that the immediate effect of competition would not be great because Marine already had a large proportion of the

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business in the area concerned. According to that logic, however, it would be possible for Marine to add one additional branch after another. He felt that this was the wrong approach, and he would consider it a mistake to permit the applicant to increase its percentage of control in this particular area. In his opinion, the adverse effect on potential competition far outweighed the need of the public for additional facilities.

Governor Shepardson confirmed by question addressed to Mr. Nelson that there appeared to be no desire at present on the part of competing banks to establish facilities in the area where the proposed branch would be located. He then expressed himself as much concerned about the cumulative effect of approval of the various Marine Midland applications. While each one might seem to have justification, over a period of time Marine Midland was gradually extending its areas of dominance. It was difficult to find a place where the Board could justify stopping this encroachment but, as Governor Mills had said, the situation ought to be examined carefully. In this particular case, competitors could have entered the area had they desired, and it might be said that there was less reason for turning down this application than the Old Kent application because in that case State law would preclude a competitor from establishing a branch in the same community after Old Kent established one there. Therefore, although concerned about the gradual encroachment of Marine, he was not sure whether the facts of this specific application were such as to support a denial.

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Governor Szymczak said that he shared Governor Shepardson's feeling of reluctance, particularly because of the apparent inability to work out a yardstick by which to gauge applications such as those presented by Marine Midland banks from time to time. It was evident that Marine was expanding its operations continuously, and in the Buffalo area competition was substantially between the Marine Trust Company and one competing institution. It must be acknowledged that Marine was serving the convenience of the public through its branches. However, with Marine already having so many branches in the area, he would be inclined on balance to deny the current application on the principle of limiting further and further expansion by the applicant. Looking at the matter from the standpoint of how any independent bank could be expected to establish itself in the area and operate successfully, one could see that the effect of additional Marine branches might be to exert a damaging effect on potential competition.

In view of questions raised by Governor Balderston, Mr. Nelson exhibited a map to indicate the site of the proposed branch, the relative locations of existing banking facilities, and the primary service area of the branch.

After examining the map, Governor Shepardson observed that the location of the proposed branch appeared to indicate an extension by Marine Trust into the periphery of an expanding area. This seemed to



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suggest a "leap-frogging" by Marine to move ahead of competition into the expanding area, and in this he found an argument in support of an adverse position on the branch application. As he saw it, this would not constitute an intensification of service in an area where Marine Trust was already represented as much as an expansion of its territory. Therefore, while the question admittedly was a difficult one, he concluded that there was a basis for denial of the application.

Governor Szymczak agreed, stating that the map seemed to show an attempt on the part of Marine to keep one step ahead of competition by rendering service to a community that was only now developing or might develop in the future. In such circumstances, the possibility of the creation of a new bank in the community would appear to be lessened.

Governor Mills cautioned against downgrading the convenience factor in this kind of situation. It was his observation that banking was becoming more and more impersonal and that a branch bank, or even a complete unit bank, was principally a station of convenience for depositors. The public, he felt, had very little feeling about who supplied the service as long as the service was convenient and the facilities comprehensive enough to meet local needs. Particularly with the development of suburbs, he believed the convenience factor could not be pushed as far down the scale of considerations as might have been the case in earlier years.

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Governor Balderston commented that, like other members of the Board who had spoken, he found this case perplexing. If it had envisaged an extension of Marine's competitive power into an area already supplied by banking facilities, he felt that he would favor denial of the application. If it were an effort by Marine to serve an area in which the bank had not been represented and which would have no banking facilities unless provided by Marine, he felt that he would favor approval of the application. In this instance, Marine already had several banking offices in the general area and the new branch would be in a location where it would obviously add to the convenience of the public without clearly precluding competition in the future. The Board, he felt, must not place too much reliance upon any single ratio or any single statistical measure. Therefore, despite the percentage of control already achieved by Marine Trust Company in the area concerned, he considered the convenience factor more important than the possibility of damage to potential competition. Hence, he would be inclined to approve the application.

From this discussion, it developed that Governors Balderston and Mills would favor approving the application while Governors Szymczak, Robertson, and Shepardson would not. Accordingly, it was agreed, pursuant to the usual practice in cases where the action proposed to be taken by the Board was different from the recommendation of the Reserve Bank concerned, that informal advice should be given to the

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Federal Reserve Bank of New York concerning the likelihood of denial of the application in order that the Reserve Bank might have an opportunity to submit further information or views if it so desired before the Board took final action. In this connection, it was indicated that there would be no objection on the part of the Board if, upon being so advised, the New York Reserve Bank wished to discuss the matter with the New York State Banking Department, particularly in view of the understanding reached last fall between the Board and the then Superintendent of Banks of the State of New York.

During the foregoing discussion Mr. Young withdrew from the meeting, and at its conclusion Mr. Hooff withdrew.

Handling of unissued Federal Reserve notes. At the meeting on March 10, 1959, the suggestion was made that the President's Conference be asked to institute a study of the handling of unissued Federal Reserve notes from the time of their shipment from Washington until their issuance to the respective Reserve Banks. A draft of a letter to the Chairman of the Conference intended to implement this suggestion had been distributed prior to this meeting. A copy of such letter, if approved by the Board, would be sent to each Federal Reserve Agent.

Mr. Farrell stated that the Division of Examinations had made certain suggestions regarding the language of the proposed letter designed principally to recognize the responsibilities of the Federal Reserve Agents and the General Auditors in the area concerned. These

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suggestions, in which he said that the Division of Bank Operations concurred, were embodied in a revised draft of letter, copies of which were distributed at this time.

Mr. Farrell then raised the broader question as to whether a study such as proposed would be procedurally appropriate in view of the desirability of maintaining a separation between the functions of the Agent, the General Auditor, and the operating side of the Reserve Bank. A possible alternative, he said, would be for the Board's staff to prepare a questionnaire which would be sent to the Reserve Bank Presidents, the Federal Reserve Agents, and the General Auditors, and then to prepare for the Board's consideration a proposed standardized procedure for the handling of unissued notes which could be sent to all of the respondents to the questionnaire for comment.

At this point Governor Robertson suggested several changes in the original draft of letter with a view to shifting the tone and emphasis of the request toward providing a definition of adequate and appropriate safeguards for the consideration of each Reserve Bank in perfecting its own procedures.

After further discussion, during which agreement was expressed with revisions along the lines suggested by Governor Robertson and by the Division of Examinations, it was understood that a draft of letter reflecting those suggestions would be prepared and distributed for the Board's consideration.

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Messrs. Noyes and Daniels then withdrew from the meeting and Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics, entered the room.

Regulation of employee-benefit funds of national banks. The Bureau of the Budget had requested the Board's views on a draft bill, submitted by the Treasury Department on behalf of the Comptroller of the Currency, to provide for regulation of the administration of pension, profit-sharing, and employee welfare or benefit funds of employees of national banks.

In a memorandum dated March 12, 1959, which had been distributed to the Board, Mr. Hexter recalled that the Comptroller made a recommendation along these same general lines when the proposed Financial Institutions Act was being drafted in 1956, but that no provisions on this subject were included in the Act, presumably because of a general study of the regulation of employee-benefit plans then being conducted by the Senate Labor and Public Welfare Committee. Legislation resulting from that study had now become effective.

Submitted with the file on this matter was a memorandum prepared by Mr. Hexter analyzing the Treasury's proposed bill and enumerating problems that might require consideration. Because of these unresolved questions, the suggestion was made that the Board might wish to refrain from taking a position regarding the proposal at this time, and a possible

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reply to the Budget Bureau drafted along such lines was submitted. Copies of the memorandum of analysis would be transmitted with the letter in order to indicate the nature and scope of the problems that might require further study.

Following comments by Messrs. Hexter and Brill on the background of the proposal and certain of the major problems seen in the bill as drafted, including the question whether special legislation in the area of national banks only was called for, Governor Robertson suggested that, before a formal reply was made to the Budget Bureau, Mr. Hexter be requested to get in touch with the Office of the Comptroller of the Currency informally with a view to discussing the points he had raised in his analytical memorandum and determining whether the Treasury would like to recast the bill to meet some of those questions. It was further suggested that Mr. Hexter communicate with the Budget Bureau by telephone and indicate that certain substantial problems involved in the proposed legislation were under study by the Board.

Following comments by Mr. Benner to the effect that the subject of the proposed legislation had been of concern to the Division of Examinations and that inter-agency study with a view to possible development of legislation applicable to all insured banks might be desirable, agreement was expressed with the approach suggested by

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Governor Robertson, it being understood that Mr. Hexter would advise the Office of the Comptroller of the Currency that his request for consideration by that Office of the points raised in his memorandum was being made at the instruction of the Board.

During the foregoing discussion Messrs. Johnson, Director, Division of Personnel Administration, O'Connell, Assistant General Counsel, and Young, Assistant Counsel, entered the room; at its conclusion Messrs. Hexter and Brill withdrew and Mr. Noyes rejoined the meeting.

Conflict of interest bills (Items 1, 2, and 3). The House Committee on the Judiciary had requested the Board's views on H.R. 2156, "to strengthen the criminal laws relating to bribery, graft, and conflicts of interest," and H.R. 2157, "to implement the criminal laws relating to bribery, graft, and conflict of interest in Government employment and to promote ethics in Government". These requests were the subject of comments in memoranda from Mr. Walter Young dated February 25 and March 10, 1959, respectively, both of which had been distributed to the Board. Submitted with the memoranda were drafts of proposed letters to the Committee on the Judiciary.

In comments based on the memoranda, Mr. Hackley stated that only two provisions of the proposed legislation would appear to be of great concern to the Board. The first would preclude any Government

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employee, after leaving Governmental service, from ever representing a client in matters concerning which he had responsibility while employed by the Government. While this language conceivably could be construed in a very severe way, Mr. Hackley's view was that in all probability it would not be so construed. The second item of concern would forbid an ex-Government employee for a period of two years after termination of service from assisting anyone in connection with any matter directly or indirectly involving the Government agency where he was formerly employed. This, Mr. Hackley noted, would be similar to provisions in the proposed Financial Institutions Act to which the Board had objected. In the letters reporting on the two bills, opposition would be expressed to the second of the provisions mentioned and attention would be called to the possibility of unduly severe construction of the first.

Mr. Young noted that the proposed letter reporting on H.R. 2157 would question the desirability of a provision declaring it to be improper conduct for an employee of the Government to discuss or consider future employment with any person outside the Government with whom he transacted business on behalf of the United States or whose interest might be substantially affected by his performance of official duties. Mr. Young also pointed out that Congressman Bennett of Florida had written the Board expressing an interest in obtaining assurance



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that the effect of certain bills, including H.R. 2157, would not be to supersede the joint resolution passed by the 85th Congress which established a code of ethics to be adhered to by all Government employees. The proposed letter on H.R. 2157 would take cognizance of Congressman Bennett's interest in the matter.

In discussion, Governor Mills inquired whether the proposed legislation, if enacted, might be construed to prohibit an ex-Government employee from criticizing actions or positions taken by his former agency and Governor Shepardson suggested that the question might become even more complex if the pertinent provisions were considered applicable to an ex-employee who had subsequently become associated with an organization or client seeking to transact business with his former agency.

Responses by Messrs. Hackley and Young were in terms that the criminal statutes are construed strictly and that it seemed doubtful whether the implications suggested by Governor Mills and Shepardson could be read into the proposed legislation. After referring to the pertinent provisions, they again stated that they could not envisage those provisions being construed so broadly.

Thereupon, the proposed letters to the Committee on the Judiciary were approved unanimously together with the proposed reply to Congressman Bennett. Copies of the approved letters are attached as Items 1, 2, and 3, respectively.

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Messrs. Nelson and Young then withdrew from the meeting.

Letter to Senator Johnson (Item No. 4). In accordance with the understanding at the meeting on March 17, 1959, there had been distributed to the members of the Board a revised draft of letter, with enclosure, to be sent to Senator Lyndon Johnson of Texas with respect to questions raised in correspondence by a constituent, Mr. H. E. Cutcher of Lockhart, Texas.

Following a brief discussion, the proposed letter was approved unanimously along with the accompanying memorandum. Copies of the letter and memorandum are attached under Item No. 4.

Continental Bank and Trust Company (Item No. 5). In connection with the section 9 proceeding involving The Continental Bank and Trust Company, Salt Lake City, Utah, on which the Hearing Examiner's Report and Recommended Decision was filed under date of March 16, 1959, Special Counsel to the Board had requested an extension of time of 30 days to and including April 30, 1959, for filing exceptions and supporting briefs to the Hearing Examiner's Report. With a memorandum from Mr. Solomon dated March 19, 1959, there had been distributed to the Board a draft of letter which would forward a copy of the motion to Counsel for Respondent and allow until March 25, 1959, to enter any objections to its being granted.

The proposed letter to Counsel for Respondent, a copy of which is attached as Item No. 5, was approved unanimously, with the

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understanding that if no objection to the motion were interposed by March 25, 1959, the request of Special Counsel to the Board would be granted.

Suit filed by Continental against the San Francisco Reserve Bank (Item No. 6). As the Board had previously been advised, there was pending in the United States District Court, District of Utah, an action by The Continental Bank and Trust Company, Salt Lake City, Utah, against the Federal Reserve Bank of San Francisco involving a trust under which the member bank was the beneficiary and under which officers of the bank held as trustees stock of the Paramount Life Insurance Company of Texas. This action was being defended by the Federal Reserve Bank of San Francisco, and its Vice President and General Counsel had requested permission to disclose certain previously unpublished information relative to the above trust in connection with such defense. Certain of the documents that Mr. O'Kane wished to file were attached in reproduced form to a memorandum from Mr. O'Connell dated March 19, 1959, which had been distributed to the Board, and the remainder of the material was described in Mr. O'Connell's memorandum. Briefly, certain affidavits prepared in support of the Reserve Bank's Motion to Dismiss or, in the alternative, for Summary Judgment contained references to information relative to the insurance company issue obtained through examination of the member bank. Also involved were a transcript of a

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certain agency account maintained in the trust department of Continental Bank and copies of certain correspondence between Counsel for the Reserve Bank and Counsel for Continental. In his memorandum, Mr. O'Connell expressed no judgment as to the validity of the legal positions asserted by the Reserve Bank. However, assuming the validity of those positions, he expressed the judgment that the material for which permission to disclose had been requested was relevant and necessary to the defenses asserted. It was recommended, therefore, that the Board authorize Mr. O'Kane to disclose the material in question in connection with defense of the suit.

Following comments by Mr. O'Connell on the nature of the unpublished information proposed for disclosure and comments by Mr. Hackley in support of the recommendation made in Mr. O'Connell's memorandum, Governor Mills indicated that he was somewhat apprehensive about the disclosure of unpublished information abstracted from a report of examination. He felt that the Board should be very certain it was not breaching the principle of confidentiality, especially because in this case the suit had to do with a trust account and trust administration has unusual considerations of confidentiality applied to it. After reviewing the essentials of the case, he observed that a matter of principle appeared to be involved in the suit rather than details of administration. If the Court should indicate that the

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information filed by the Reserve Bank did not adequately explain the matter and the Bank were then required by the Court to produce additional information, it seemed to him that the circumstances would be more favorable for disclosure of the unpublished information.

Mr. O'Connell responded that a large portion of the material had in fact already been disclosed, in other language, in the complaint filed in this matter. The member bank had clearly asserted the nature of the trust in question, which in effect was all that the attachments to the affidavits would do. After drawing certain comparisons with the material that the Board had authorized for possible disclosure in connection with the suit filed against it by Old Kent Bank and Trust Company, Mr. O'Connell said it appeared proper that legal defenses which were legitimate should be raised at this juncture. If they were not, the Court might grant a cross-motion by the plaintiff for summary judgment and there would never be an opportunity to present the unpublished information.

Governor Mills then stated that, having been reassured by the advice of Counsel, he would be willing to authorize disclosure of the unpublished information in question, and other members of the Board expressed themselves in like terms. Accordingly, unanimous approval was given to the telegram to Mr. O'Kane of which a copy is attached as Item No. 6.

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Messrs. Hostrup, Benner, O'Connell, and Holahan then withdrew from the meeting.

Letter to Senator Robertson (Item No. 7). In a letter dated March 18, 1959, Senator Robertson inquired about the accuracy of a recent statement by Senator Gore of Tennessee to the effect that at the end of 1958 the money supply was lower in relation to gross national product than in 1952. The percentages cited by Senator Gore were 32.8 and 37.2, respectively. As understood at yesterday's meeting, a draft of proposed reply had been distributed to the members of the Board.

Discussion of the proposed reply resulted in suggestions that reference be made (1) to the need for considering the rate of turnover in discussing the adequacy of the money supply and (2) to the need for viewing the relationship of the money supply to gross national product over a longer period of time than that referred to by Senator Gore.

At the conclusion of the discussion, unanimous approval was given to a reply to Senator Robertson in the form attached as Item No. 7.

The meeting then adjourned.

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

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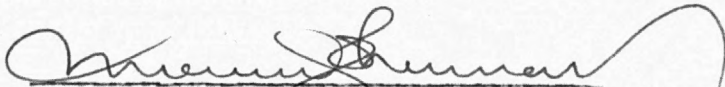
Salary increases

Eleanor S. Frase, Economist, Division of Research and Statistics,  
from \$10,850 to \$11,355 per annum, effective March 22, 1959.

Thomas V. Kopfman, Assistant Supervisor, Duplicating, Mail,  
Messenger, and Supply Section, Division of Administrative Services,  
from \$6,718 to \$6,947 per annum, effective March 22, 1959.

Acceptance of resignation

Gladys D. Bosben, Draftsman-Illustrator, Division of Research and  
Statistics, effective March 18, 1959.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
3/20/59

OFFICE OF THE VICE CHAIRMAN

March 20, 1959.

The Honorable Emanuel Celler, Chairman,  
Committee on the Judiciary,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of February 4, 1959, requesting an expression of the Board's views on H.R. 2156 "To strengthen the criminal laws relating to bribery, graft, and conflicts of interest, and for other purposes." The Board has followed with much interest the study which your Committee has made of this general subject and is in full accord with the objectives of the bill.

The bill would rearrange provisions of existing law in a more orderly manner, make certain technical changes, and attempt to clarify and expand certain provisions of existing law which, in practice, have been difficult to interpret.

The Board considers that the provisions in section 1 of the bill relating to bribery, compensation to Government officials otherwise than as provided for by law, the prosecution by Government officials of claims against the United States, and interested persons acting as Government agents are desirable. No comments are offered with respect to the proposed new sections 204 and 206 of the Criminal Code since they in no way affect the Board of Governors.

The new section 207 embodies an amendment of the present section 284, relating to disqualification of former Government officers and employees in matters connected with their former duties. The first paragraph of the new section prohibits an ex-Government employee from ever representing a nongovernmental interest in matters concerning which he had some responsibility while employed by the Government. As applied to the Board of Governors, this provision, for example, apparently would forbid a former employee from acting on behalf of a member bank in connection with a request for approval of a branch application if, while employed by the Board, the



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individual had some responsibility with respect to that specific application. If this is the correct construction of the paragraph, the Board would have no objection to its favorable consideration. However, it is assumed that the paragraph would not be construed to forbid an employee of the Board who may have had some general responsibility in the processing of branch applications from later representing a bank in connection with such an application if while employed by the Board, the individual had no responsibility with respect to the specific branch application.

The second paragraph of section 207 would forbid an ex-Government employee, for a period of two years after termination of his Government employment, from assisting anyone in connection with any matter directly or indirectly involving the Government agency where he was formerly employed. This broad prohibition under the language of the paragraph would seem to apply whether his responsibility while employed by the Government involved the specific subject matter or not. The prohibition would apply to all Government employees regardless of the nature of their duties or the degree of their responsibility for actions taken by the Government agency. It is the view of the Board that, while some expansion of these criminal provisions along the lines indicated by the bill may be desirable, the language of the proposed provision would be unduly rigid and severe, would give rise to difficult problems of interpretation, and might seriously handicap the Board in recruiting qualified employees.

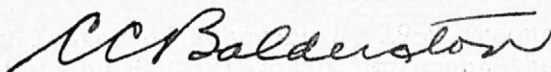
Finally, the Board wishes to comment on the proposed new section 218 under which the President or, under regulations prescribed by him, the head of a Government agency, might declare void and rescind any action taken by the agency if in connection with the action, there had been a violation of any of the conflict-of-interest provisions. In actual practice, it is believed that this provision could lead to most serious administrative difficulties. For example, if, under the Bank Holding Company Act, the Board takes some action involving a large number of corporate entities and years later it is found that there had been a violation of one of the conflict-of-interest provisions, then everything that had been done as a result of the Board's action might have to be undone. Conceivably and very probably, rights of innocent persons such as stockholders, borrowers, and depositors might be adversely affected, not to mention the difficulties which could be

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encountered in the process of "unscrambling" complicated corporate relationships. The Board, of course, would favor legislation designed to prevent anyone from profiting as a result of a criminal act. However, if the above interpretation of the proposed new section 218 is correct, then the Board believes that the provision in its present form should not be approved.

Sincerely yours,



C. Canby Balderston,  
Vice Chairman.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
3/20/59

OFFICE OF THE VICE CHAIRMAN

March 20, 1959



The Honorable Emanuel Celler, Chairman,  
Committee on the Judiciary,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of February 4, 1959, requesting an expression of the Board's views on H.R. 2157 "To implement the criminal laws relating to bribery, graft, and conflict of interest in Government employment and to promote ethics in Government."

The bill would amend the Administrative Procedure Act by setting out in a new Title II those actions which would be considered as improper conduct on the part of Government employees, ex-Government employees, and private parties. Sanctions are provided for those who engage in such conduct.

The Board is in accord with the purposes of the bill and has no specific comments to make except with respect to certain provisions, including sections 103, 104, and 107(a)(5) of the proposed new title, which are in substance the same as certain provisions contained in H.R. 2156 with respect to which the Board has already reported to your Committee.

Section 103 prohibits an ex-Government employee from ever representing a nongovernmental interest in matters concerning which he had some responsibility while employed by the Government. If applied to the Board of Governors, this provision, for example, apparently would forbid a former employee from acting on behalf of a member bank in connection with a request for approval of a branch bank application if, while employed by the Board, the individual had some responsibility with respect to that specific application. If this is the correct construction of the section, the Board would have no objection to its favorable consideration. However, it is assumed that the section would not be construed to forbid an employee of the Board who may have had some general responsibility in the processing of branch applications from later representing a bank in connection with such an application if, while employed by the Board, the individual had no responsibility with respect to the specific branch application.

The Honorable Emanuel Celler

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Section 104 would forbid an ex-Government employee, for a period of two years after termination of his Government employment, from assisting anyone in connection with any matter directly or indirectly involving the Government agency where he was formerly employed. This broad prohibition under the language of the section would seem to apply whether his responsibility while employed by the Government involved the specific subject matter or not. The prohibition would apply to all Government employees regardless of the nature of their duties or the degree of their responsibility for actions taken by the Government agency. It is the view of the Board that, while some provision along the lines indicated by this section of the bill may be desirable, the language of the section in its present form would be unduly rigid and severe, would give rise to difficult problems of interpretation, and might prove to be a serious handicap in the recruitment of qualified employees.

The Board also questions the desirability of so sweeping a provision as that contained in section 102(a) which declares it to be improper conduct for an employee of the Government to discuss or consider his future employment with any person outside the Government with whom he transacts business on behalf of the United States, or whose interests may be substantially affected by his performance of official duty. A corollary provision is contained in section 105(a) and is directed at private persons who discuss or consider future employment of a Government employee who transacts business with him on behalf of the United States or whose performance of official duties may substantially affect his interests.

Section 107(a)(5) would authorize the head of an agency, under regulations prescribed by the President, to cancel any action taken by a Government agency involving improper conduct whether on the part of a Government employee, an ex-Government employee, or a private party. In actual practice it is believed that this provision could lead to most serious administrative difficulties. For example, if, under the Bank Holding Company Act, the Board takes some action involving a large number of corporate entities and later it is found that there had been improper conduct, then everything that had been done as a result of the Board's action might have to be undone. Conceivably, and very probably, the rights of innocent persons such as stockholders, borrowers, and depositors might be adversely affected not to mention the difficulties which could be encountered in the process of "unscrambling" complicated corporate relationships. The Board, of course, would favor legislation designed to prevent anyone from profiting as a result of improper conduct. However, if the above interpretation of the proposed section is correct, then the Board believes that the provision in its present form should not be approved.

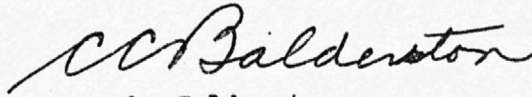
The Board understands that Congressman Bennett has discussed with you the advisability of amending H.R. 2157 so as to indicate that

The Honorable Emanuel Celler

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the bill is to implement and supplement the Code of Ethics provided in H. Con. Res. 175, 85th Congress, and not to supplant or overrule it. The Board would have no objection to an amendment along these lines.

Sincerely yours,



C. Canby Balderston,  
Vice Chairman.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
3/20/59

OFFICE OF THE VICE CHAIRMAN

March 20, 1959.

The Honorable Charles E. Bennett,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Bennett:

This will acknowledge your letter of February 12, 1959, with enclosure, concerning the possible effect of certain bills which have been introduced in the present Congress on H. Con. Res. 175, 85th Congress, establishing a Code of Ethics to be adhered to by all Government employees.

For your information, there is enclosed a copy of a report which the Board has today submitted to Congressman Celler, Chairman of the House Committee on the Judiciary, on H. R. 2157, a bill "To implement the criminal laws relating to bribery, graft, and conflict of interest in Government employment, and to promote ethics in Government."

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,  
Vice Chairman.

Enclosure

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
3/20/59

OFFICE OF THE VICE CHAIRMAN

March 20, 1959.

The Honorable Lyndon B. Johnson,  
United States Senate,  
Washington 25, D. C.

Dear Senator Johnson:

This is in reply to your request of March 5 for comments on the topic discussed by Mr. H. E. Cutcher of Lockhart, Texas, in his letter to you of March 4, 1959.

At the outset, it must be made clear that the Federal Reserve System does not "give" anything to the commercial banks of the country or to anyone else, in the sense that Mr. Cutcher appears to have used that word.

Commercial banks by their very nature are in the business of creating money. They do this, for example, every time a loan is made to a customer and his account is credited with the proceeds of that loan. The Federal Reserve System was established by Congress to exercise some control over this process of money creation and extinguishment by commercial banks. There are various ways in which the System makes it possible for banks to expand credit or, conversely, forces them to contract credit. The reasons for System actions in either direction are, of course, not related to a bank's individual interests, but rather to providing credit conditions conducive to growth and prosperity for the country as a whole--in short, to the public interest.

In light of your constituent's interest in the relationship of the Federal Reserve System to commercial banks, there is enclosed a small pamphlet which he may want to read. This will serve as a more adequate explanation than can be provided in a letter. There is also enclosed a brief memorandum explaining the process by which banks acquire Government securities that you may find helpful in responding to the inquiry.

Mr. Cutcher's letter is returned in accordance with your request.

Sincerely yours,

*C. Canby Balderston*  
C. Canby Balderston,  
Vice Chairman.

March 20, 1959.

MEMORANDUM FOR SENATOR JOHNSON

It is not correct to say or imply that the Federal Reserve System gives member banks reserves on the basis of which the banks can acquire Government securities amounting to many times as much and collect interest on those securities. An individual bank can purchase newly issued securities from the U. S. Treasury and credit the Treasury's deposit balance (the so-called tax and loan account) with the amount of the purchase. A bank can and does make loans to its customers on the same basis.

In such an operation, however, the bank is subject to two obligations. First, it must maintain a reserve balance with its Federal Reserve Bank (or in case of a nonmember bank in cash or in some other required form). This required reserve, which is a fraction of deposits, may be obtained by an individual bank by drawing on its balance with some other bank, by borrowing, or by selling some asset. In the final analysis for the member banking system as a whole, the additional reserves must be obtained either by borrowing from the Reserve Bank, or they must be supplied through Federal Reserve purchases of Government securities.

The Reserve System, through the Federal Open Market Committee, decides whether or not to purchase securities to supply reserves. The Reserve Banks also decide at what discount rate advances will be made to member banks. These decisions, as explained later, are based on broad policy considerations as to the country's need for additional deposits.

The second obligation that a bank extending credit to a depositor must be prepared to meet is the withdrawal of the deposit. Such withdrawal occurs within a few weeks in the case of an increase in the Treasury



To Senator Johnson

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balance and at varying intervals and in varying proportions in the case of additions to other deposits. When deposits are withdrawn, the bank may lose an equivalent dollar amount of reserves, while its required reserves decrease by only a fraction of that amount. The bank must then sell assets or borrow to meet this reserve drain. Thus, no individual bank can count on retaining indefinitely Government securities or other assets acquired in return for a deposit balance.

In actual practice, for the banking system as a whole, funds are constantly being shifted among banks. What one bank loses another gains. There is no net liquidation for decrease in assets for the whole system, unless the total supply of reserve is reduced, or no net expansion unless the reserve supply is augmented. An addition to the reserve supply can provide the basis of an expansion in credit by the whole banking system, though not by any individual bank, amounting to many times the amount of the addition to reserves. Correspondingly, a decrease in reserves would result in a multiple contraction of credit.

It is this multiple effect of changes in reserves, which is the basis for the statement that banks can expand assets greatly from a small amount of reserves supplied by the Federal Reserve. The additional reserves, however, as explained, are in no sense a gift. They can be acquired by a bank only by borrowing or by liquidating other assets, or as a result of a deposit of funds shifted from another bank or acquired by the depositor by sale of securities to the Federal Reserve.

Federal Reserve decisions, moreover, to add to or reduce the available supply of reserves, are based upon broad policy considerations as to the appropriate amount of credit and money that the banking system should

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

To Senator Johnson

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make available to maintain a growing economy with stable prices. Federal Reserve operations are not made for the purpose of increasing the earnings of banks. They may enable banks as a group to increase their earning assets, but the effect on bank profits depends on the interest rates received and expenses of operating banks. Interest rates in turn are determined by the relation between current demands for credit and the available supply of lendable funds, including the public's savings as well as the reserve position of banks. Additions to bank reserves in the absence of demands for credit can result in declining interest rates and a decrease in bank earnings.

Approved for your information as a copy of a letter  
for extension of the existing exception and holding in  
Federal Reserve's report and document on Federal Reserve  
Special committee to the Board of Governors in the above  
If you have any objection to this copy,  
this copy will be sent to the Board on March 23, 1954.

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

Item No. 5  
3/20/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 20, 1959



AIR MAIL - REGISTERED  
RETURN RECEIPT REQUESTED

Peter W. Billings, Esq.,  
Fabian, Clendenin, Mabey, Billings & Stoddard,  
Continental Bank Building,  
Salt Lake City, Utah.

In the Matter of The Continental Bank and  
Trust Company, Salt Lake City, Utah.

Dear Mr. Billings:

Attached for your information is a copy of a "Motion for extension of time for filing exceptions and motions to Trial Examiner's Report and Recommended Decision" filed by the special counsel to the Board of Governors in the above proceeding.

If you should have any objections to the granting of this motion they should be filed with the Board not later than March 25, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

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Item No. 6  
3/20/59

**TELEGRAM**  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

March 20, 1959

O'Kane - San Francisco

In reference to the motion you propose to file in case of  
Cosgriff, et al. v. Federal Reserve Bank of San Francisco,  
Board authorizes use of unpublished material in the form and to  
the extent contained in the affidavits and attachments thereto  
enclosed in your letter to the Board of March 17.

In accordance with telephone request content of this  
wire is also being sent direct to you in Salt Lake City.

(Signed) Merritt Sherman

SHERMAN

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 7  
3/20/59

OFFICE OF THE VICE CHAIRMAN

March 20, 1959

The Honorable A. Willis Robertson,  
United States Senate,  
Washington 25, D. C.

Dear Senator Robertson:

In response to your letter to Chairman Martin, dated March 18, 1959, the seasonally adjusted money supply (demand deposits adjusted and currency) for the fourth quarter of 1958 was \$137.8 billion. The gross national product in that quarter was at an annual rate of \$453 billion. Therefore the ratio of the money supply to gross national product was 30.4 per cent.

In the comparable quarter of 1952 the respective figures were \$125 billion, \$359 billion, and 34.7 per cent. In the fourth quarter of 1947, the comparable figures were \$110.5 billion, \$245.1 billion, and 45.1 per cent. Throughout the postwar period, in other words, the economy has been working off the liquidity bulge occasioned by the financing of World War II. As you can see from the attached chart, the level now is not low by historical standards; it is still several percentage points above that of the 1920's. Our staff estimates indicate that the present level is also close to the level prevailing in the first decade and a half of this century.

While the figures used in this letter do not agree precisely with those cited by Senator Gore, this difference is of little import. It appears that he has related year-end money supply unadjusted to annual gross national product figures. Appropriate statistical refinements do not alter substantially the essential facts. However, in order fully to grasp the import of developments bearing on the ratio of the money supply to gross national product, it is necessary to view the trend over a longer period of time than that referred to. Of course, in any discussion of what constitutes an adequate supply of money, it is necessary to take into consideration the rate of turnover or use of that money.

Sincerely yours,

*CC Balderston*

C. Canby Balderston,  
Vice Chairman.

Attachment