

Minutes for August 6, 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>mm</u>	<u>mm</u>
Gov. Szymczak	<u>mm</u>	x <u>mm</u>
Gov. Mills	<u>mm</u>	<u>mm</u>
Gov. Robertson	x <u>R</u>	<u>mm</u>
Gov. Balderston	x <u>CCB</u>	<u>mm</u>
Gov. Shepardson	<u>mm</u>	x <u>mm</u>
Gov. King	x <u>mm</u>	<u>mm</u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, August 6, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Shay, Legislative Counsel
Mr. Connell, Controller
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Noyes, Adviser, Division of Research and
Statistics
Mr. Hexter, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of
Bank Operations

Discount rates. The establishment without change by the Federal Reserve Bank of San Francisco on August 5, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Armored car services (Item No. 1). At the meeting of the Board on May 20, 1959, reference was made to the possibility of interruptions in commercial armored car services used by the Federal Reserve Banks and question was raised as to whether a study had ever been made of the operation by the Banks of their own armored cars. A subsequent review of the files showed that in a report of the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations dated January 24, 1954, which dealt primarily with the relative advantages of armored

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car and registered mail service, some reference was made to difficulties that might be encountered under arrangements with private companies, including interruptions in service due to strikes. However, the Subcommittee concluded that the savings and other advantages in the use of armored cars more than offset the hazards involved, and the Presidents apparently endorsed this view in accepting the report at their meeting on March 1, 1954.

In view of the time that had elapsed since the Subcommittee's study and the expanded use of armored car services by the Reserve Banks, the Division of Bank Operations had concluded that a further study by the Presidents' Conference might be advisable. Accordingly, there had been distributed to the Board, with a covering memorandum from Mr. Kiley dated August 4, 1959, a draft of letter to the Chairman of the Presidents' Conference requesting that the Conference review the extent of use of commercial armored car services by the Reserve Banks, along with the possible desirability of an alternative arrangement under which the Reserve Banks would own and operate their own cars.

Following discussion of the background of the matter, unanimous approval was given to the proposed letter to the Chairman of the Presidents' Conference, a copy of which is attached as Item No. 1.

At this point Mr. Molony, Assistant to the Board, entered the room.

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Letter from House Subcommittee. There had been distributed to the members of the Board copies of a letter addressed to Chairman Martin under date of August 3, 1959, by Congressman Porter Hardy, Jr., Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations. The letter explained that the Subcommittee had been assigned the responsibility of examining, from the standpoint of economy and efficiency, the operations of the Board of Governors of the Federal Reserve System and that full knowledge and understanding of all phases of the Board's activities were, of course, a necessary prerequisite to proper discharge by the Subcommittee of its duties. It was requested that some member of the Board's staff be designated to confer preliminarily at an early date with the Subcommittee's Chief Counsel, Mr. John T. M. Reddan.

At the Chairman's request, Mr. Shay commented briefly on the functions of the Committee on Government Operations and its subcommittees. In this connection, he referred to the Committee's authority, under the Legislative Reorganization Act of 1946, to study Government activities at all levels with a view to determining their efficiency and economy.

Since Mr. Shay had an appointment with Mr. Reddan tomorrow which might afford additional information, it was agreed to defer a reply to Chairman Hardy's letter.

All of the members of the staff except Messrs. Sherman, Kenyon, Fauver, Riefler, and Noyes then withdrew.

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Appointment of director at New Orleans. After consideration of information contained in a memorandum from Mr. Fauver dated August 4, 1959, it was agreed unanimously to request the Chairman of the Federal Reserve Bank of Atlanta to ascertain whether Mr. Gerald L. Andrus, Vice President of New Orleans Public Service, Inc., New Orleans, Louisiana, would accept appointment, if tendered, as a director of the New Orleans Branch for the unexpired portion of the term ending December 31, 1961. This action was taken with the understanding that if Mr. Andrus indicated a willingness to accept, the appointment would be made.

Mr. Fauver then withdrew from the meeting.

Use of discount window by "underwriting" banks. At Governor Balderston's request, there had been distributed to the members of the Board copies of an undated memorandum prepared by Vice President Holland of the Federal Reserve Bank of Chicago exploring the question of the degree of access to the Federal Reserve discount window appropriate for member banks serving as informal "underwriters" of Treasury cash financings.

Chairman Martin commented briefly on the background and general nature of the problem, including questions that had been raised informally by the Treasury, following which Governor Balderston outlined the circumstances under which Mr. Holland was invited to come to Washington recently for exploratory discussions participated in by Governor Balderston and members of the Board's staff. A request at that time, he explained, had resulted in the submission by Mr. Holland of the aforementioned memorandum.

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Chairman Martin then suggested that, in view of the close relationship of this subject to open market operations, discussion thereof by the Federal Open Market Committee would seem appropriate.

The other members of the Board concurred. Accordingly, after alternative procedural possibilities had been mentioned, it was agreed to arrange for the Secretary of the Federal Open Market Committee to place the topic on the agenda for the Committee meeting on August 18, 1959. It was further agreed, provided President Allen and Mr. Holland had no objection, to arrange for the Secretary to distribute copies of Mr. Holland's memorandum to the Committee members in advance of the August 18 meeting.

Secretary's Note: Governor Balderston subsequently ascertained that President Allen and Mr. Holland would have no objection to distribution of the memorandum or identification of the author.

Visits by Chairmen of Reserve Banks. It was noted that Chairman Mitchell of the Federal Reserve Bank of Atlanta had expressed a desire to visit the Board's offices on Wednesday, August 26, to discuss matters relating to the Reserve Bank's affairs with individual members of the Board. It was also noted that Chairman Van Buskirk of the Federal Reserve Bank of Cleveland would meet with the Board on Monday, August 10, that Chairman Prall of the Federal Reserve Bank of Chicago was to meet with the Board on Thursday, August 13, and that an invitation had been extended to Chairman Bierwirth of the New York Bank to meet with the Board on

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September 16, 17, or 18 for discussion of matters referred to in his letters to Chairman Martin dated July 23, 1959.

Operations engaged in by member bank. Governor Robertson called to the Board's attention information contained in the most recent examination report of the American Trust Company, New York City, relating to the circumstances surrounding the bank's practice of subscribing heavily to Treasury issues, gaining credit to its tax and loan account, reselling the securities quickly, and thereby experiencing a net reserve gain from its activities pending Treasury calls on the tax and loan account.

The meeting then adjourned.

A handwritten signature in cursive script, appearing to read 'Kenneth J. ...', is written over a horizontal line. Below the line, the word 'Secretary' is printed in a serif font.

Secretary

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

Item No. 1
8/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1959.

Mr. Delos C. Johns, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

The Board had occasion recently to discuss the use of armored car services by the Reserve Banks and specifically the possible effect of interruptions in such services.

It may be recalled that in 1953 the Subcommittee on Cash, Leased Wire and Sundry Operations gave some consideration to the matter, including the possible desirability of the operation by the Federal Reserve Banks of a fleet of their own money trucks, instead of relying on commercial services. In a report, dated January 29, 1954, the Subcommittee concluded that the savings and the better service afforded by the use of commercial armored car services more than offset the hazards involved.

While the Presidents apparently endorsed this view in accepting the report at their meeting on March 1, 1954, the Board feels that the lapse of time and the expansion in the use of armored car services by the Reserve Banks have been such as to make another study of the matter by the Presidents' Conference desirable.

Therefore, it would be appreciated if you would arrange to have the Presidents' Conference review the extent of the use of commercial armored car services by the Reserve Banks and discuss the possible desirability of an alternative arrangement under which the Reserve Banks would own and operate their own armored cars.

Very truly yours,

Merritt Sherman
Merritt Sherman,
Secretary.

